GETTING READY FOR 1999

Ideas for Canada's Politics and Government

TOM KENT

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by

Tom Kent

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Foreword

In his previous book (*A Public Purpose*), Tom Kent makes tellingly the point also central to this present monograph: parliamentary democracy demands of political parties some degree of candour and honesty in formulating, presenting, and debating at least the broad orientations of the programs for which they hope to secure an electoral mandate. Such a policy agenda runs much deeper than the usual PR glitz or the short-term statements of priority tasks to be addressed on assuming (or re-assuming) office, of which we already have a plethora for the current mandate.

The year 1992 offers a symbolic turning point in many respects: Europe 1992; the United Nations 5-year world review of progress in implementing the recommendations of the Brundtland Commission; a new Canadian election reflecting some assessment of the process of continental integration and the extent to which it has been influenced by the Canada-U.S. free trade agreement of 1988. . . . It thus provides also a target date for wrapping up a debate over directions for Canada in "Getting Ready for 1999" by rebuilding the post-war consensus on social policy, government roles, and international involvement. Developing that new consensus should be a feature in policy discussions over the next few years.

What is impressive about this slim volume in this context is not that it sets out a fully articulated program with which everyone will be

forced by its compelling internal logic to agree. Rather it is that a core of underlying principle is employed to create a coherent framework for a public policy agenda for the next few decades. A foundation of lively respect for the genius of the market is combined with an acute awareness of the distortions or limitations which are leading us badly—fundamentally—astray in many of our most critical collective decisions: in respect of irresponsible exploitation of resources and failures of stewardship, for example, or excessive concentration of economic power, or inability to find a persuasive rationale for promotion of healthy public policy and community development.

The sweep of ideas to be found here is extensive, but far from exhaustive. It includes:

- reform of government institutions to assure greater responsiveness through election of the House of Commons by proportional representation, and election of a Senate from single-member constituencies;
- reform of political structures (including a dramatically smaller, but effective Cabinet, referenda on constitutional amendments, a "Council of Canada" to support federal-provincial institutions);
- reform of the electoral process (shorter campaigns, a large extension of free-time political broadcasting for all qualified parties coupled with restrictions on paid advertising, tighter definitions of party membership, prohibition of political contributions from any source other than individual Canadian voters, and creation of a Commission of Political Ethics analogous to an Auditor General's office);
- reform of the corporate tax system to treat retention of corporate earnings symmetrically with distribution of those earnings (directly or through an equivalent share distribution);
- reform of health-care financing to include in income for tax purposes the value of medical services utilized, with extensive provisions for ceilings and carry-forward on any consequent tax liabilities;
- introduction of an international tax on multinational enterprises, to be paid to the UN, but coupled with treaties to assure "national treatment" in matters of taxation;
- and a range of further ideas for the introduction (with appropriate transitional provisions) of measures to strengthen economic and social policy, including human resource development, mobility and immigration (this last to be targeted on the very young).

All of these ideas must be set in a new context. Advancing technologies and increasingly integrated markets are placing Canada

in a much more central geographical situation than previously. Discussion of a new social consensus must carry us beyond the 1988 election controversies over continental integration. The 1988 election was not merely a referendum on free trade; to the extent that it was, it did not command a majority of Canadian voters. But the return of the Conservative government with a parliamentary majority did constitute a mandate to carry forward the program which had been placed before the electorate. Central to that platform was implementation of a trade agreement with the United States which would in no way jeopardize or place at risk existing Canadian social programs, in a manner which would ensure that some of the benefits are used to meet the costs of adjustment visited upon those who bear most directly the impact of the agreement—and with assurance that the process of continental integration would not be pursued at the expense of Canada's links across any of its other three borders on the Atlantic, the Pacific, or the Arctic.

On that base it is necessary now to construct a fuller and more precise agenda for public debate and public policy in Canada in the longer term.

This book suggests one. It has been read by a number of colleagues, who have offered a number of comments and criticisms, but who have all recommended it highly. In the nature of such a book, a formal external review process following the Institute's normal practice would be either superfluous or argumentative. The book sets out a personal statement; I think it deserves to be widely read, and we are therefore publishing it with the least possible delay, in the hope that it will initiate the sort of debate the author advocates.

It seems appropriate that Tom Kent, a Fellow-in-Residence with this Institute and founding editor of the Institute's magazine *Policy Options*, should offer a lead into the process of formulating over the next two or three years some ideas for dealing with the policy questions which will face us into the next millennium, when the technology truly will have arrived to create a global village of ideas and services as well as capital. In this village, for Canada, looking forward to the west and the north must be seen as at least as important as looking back eastward and southward. And looking inward to our basic individual and social values will be more important still in getting ready for the coming years. This book challenges us to get on with that task, and shows us well how to get started.

Rod Dobell
President

March 1989

Avant-propos

Dans son livre précédent (*A Public Purpose*), Tom Kent insistait déjà avec brio sur la question qui constitue le point principal de la présente monographie, à savoir que la démocratie parlementaire requiert des partis politiques un minimum de franchise et d'honnêteté dans la manière dont ils formulent, présentent et débattent, dans leurs grandes lignes, les programmes sur lesquels ils espèrent être élus. Un tel programme politique va beaucoup plus loin que l'habituel exercice habile de relations publiques ou que les déclarations à court terme portant sur les tâches urgentes à réaliser en cas de mandat ou de renouvellement de mandat; de celles-ci, il y a déjà pléthore.

L'année 1992 constitue un moment décisif symbolique à bien des égards: ce sera l'année de l'Europe; les Nations-Unies procéderont à la révision quinquennale des progrès accomplis relativement aux recommandations de la Commission Brundtland; de nouvelles élections canadiennes auront lieu qui permettront d'évaluer, dans une certaine mesure, l'état de l'intégration continentale et le rôle joué dans cette intégration par l'accord de libre-échange de 1988 entre le Canada et les États-Unis . . . Cette date représente par conséquent un moment idéal pour opérer la synthèse d'un débat sur les orientations que devrait prendre le Canada pour "être prêt en 1999", et nous pouvons nous y préparer en retrouvant le consensus de l'après-guerre en matière de politique sociale, de tâches gouvernementales et

d'engagement international. La réalisation de ce nouveau consensus devrait constituer un point important dans les discussions politiques des quelques prochaines années.

De ce point de vue, ce qui impressionne dans ce mince volume, ce n'est pas qu'il énonce un programme complet auquel tout le monde se verrait obligé d'adhérer de par la logique implacable de sa présentation; c'est plutôt le fait qu'un principe fondamental sert de base à la création d'un cadre de travail cohérent, permettant la réalisation d'un calendrier politique valable pour les quelques décennies à venir. À partir d'un respect dynamique à l'égard du génie des lois du marché, l'auteur prend en compte, avec une conscience aiguë, les distorsions ou les limitations qui nous font nous fourvoyer grandement-fondamentalement-dans la plupart de nos décisions collectives les plus critiques: à l'égard de l'exploitation irresponsable de nos ressources et des erreurs de gestion, par exemple, ou de la concentration excessive du pouvoir économique, ou encore de l'incapacité de trouver une justification convaincante pour la promotion d'une politique saine et pour le développement de la communauté.

L'éventail des suggestions présentées dans le volume est vaste, mais il est loin d'être exhaustif. On y relève notamment:

— la réforme des institutions gouvernementales pour assurer un meilleur rapport avec l'électorat, en instituant des élections à la proportionnelle pour la Chambre des communes, et un Sénat élu à partir de circonscriptions à un seul représentant;

— la réforme des structures politiques (entre autres: une réduction radicale du cabinet, sans préjudice de son efficacité; des référendums sur les amendements constitutionnels; un "Conseil du Canada" chargé d'aider les institutions fédérales-provinciales);

— la réforme du processus électoral (des campagnes plus courtes; une forte augmentation du temps d'antenne gratuit consacré aux émissions politiques, au profit de tous les partis qualifiés et assortie de restrictions sur la publicité payante; des définitions plus strictes quant à l'appartenance à un parti; la prohibition des contributions aux partis politiques autres que celles qui émanent des particuliers canadiens ayant droit de vote; la création d'une Commission d'éthique politique dont le rôle serait analogue à celui du bureau du vérificateur général);

— la réforme de l'impôt sur les sociétés, de façon à traiter les bénéfices non distribués de la même manière que ceux qui le sont (directement ou sous forme d'actions);

— la réforme du financement des soins de santé, pour inclure dans le revenu imposable la valeur des services médicaux reçus, avec de larges dispositions pour les plafonds et les reports de toute obligation fiscale qui en résulte;

— l'introduction d'une taxe internationale sur les multinationales, payable à l'ONU, mais assortie de traités pour garantir le "traitement national" en matière de taxation;

— toute une gamme d'autres idées, pour l'introduction (avec des dispositions transitionnelles appropriées) de mesures destinées à renforcer la politique économique et sociale, y compris le développement des ressources humaines, la mobilité et l'immigration (cette dernière visant principalement les très jeunes).

Toutes ces idées doivent être mises en perspective dans un nouveau contexte. Le développement des technologies et l'intégration croissante des marchés placent le Canada dans une situation géographique beaucoup plus centrale qu'auparavant. Le débat sur le nouveau consensus social doit nous entraîner bien au-delà des controverses sur l'intégration continentale des élections de 1988. Celles-ci étaient plus qu'un référendum sur le libre-échange et, dans la mesure où elles n'étaient que cela, elles n'ont pas recueilli l'assentiment de la majorité des électeurs canadiens. Mais le retour au pouvoir des conservateurs avec une majorité parlementaire constitue malgré tout un mandat pour mener à bien le programme politique proposé à l'électorat canadien. Au cœur de ce programme se trouve la mise en œuvre d'un accord commercial avec les États-Unis qui ne doit en aucune manière mettre en péril les programmes sociaux en existence au Canada, mais plutôt être appliqué de façon à ce qu'une partie des avantages qui en résulteront serve à payer les coûts d'ajustement auxquels auront à faire face ceux qui sont le plus directement touchés par sa mise en œuvre, et avec l'assurance que le processus d'intégration sociale ne se poursuive pas au détriment des relations que le Canada entretient au-delà de ses trois autres frontières, dans les régions de l'Atlantique, du Pacifique et de l'Arctique.

C'est sur cette base qu'il convient donc d'établir dès maintenant un programme d'ensemble à la fois plus complet et plus précis, susceptible de faire l'objet d'un débat public et de servir à l'élaboration d'une politique canadienne à plus long terme.

Ce livre en propose un. Il a été revu par un certain nombre de collègues qui ont présenté leurs commentaires et leurs critiques, mais qui l'ont tous fortement recommandé. Étant donné la nature de l'ouvrage, il a semblé superflu de le soumettre à une évaluation externe, comme c'est habituellement la règle à l'Institut. Ce livre

propose en effet une opinion personnelle, donc sujette à controverse; je pense qu'il mérite d'être lu par le plus grand nombre et c'est pourquoi nous avons décidé de le publier dans les plus courts délais possibles, avec l'espoir qu'il suscitera la sorte de débat que son auteur préconise.

Il semble simplement approprié que Tom Kent, chercheur émérite à cet Institut, fondateur et ancien rédacteur en chef de notre revue *Options politiques*, soit celui qui nous propose aujourd'hui une voie pour nous aider à formuler, dans les deux ou trois années à venir, les quelques concepts nous permettant d'envisager les questions politiques auxquelles nous aurons à répondre au cours du prochain millénaire, alors que la technologie sera véritablement parvenue à créer un village global d'idées, de services et de capitaux. Dans ce village, il sera aussi important pour le Canada de se tourner vers l'Ouest et vers le Nord qu'en direction de l'Est et du Sud, et il sera encore plus important de regarder à l'intérieur de nous-mêmes, pour estimer nos propres valeurs individuelles et sociales, afin de nous mieux préparer pour les années à venir. Ce livre nous lance un défi en nous montrant la tâche à accomplir et en nous indiquant les moyens qui nous permettront de l'affronter.

Rod Dobell
Président

Mars 1989

Introduction

The claim that can be made about this book is that it is rooted in an extensive experience of politics, government, business and the press. In a recent book* I described some of that experience, over the years 1954-71. The writing left me with two impressions. One is the sense of unfinished business: things that we did badly; things begun but not satisfactorily completed; things intended but left aside because the circumstances were unfriendly; things that should and could have been done and were not. The second impression is of how much the policy requirements have changed. It is not only that many battles are over, that things which had to be fought for thirty years ago are now taken for granted. Some issues important today were hardly thought of twenty years ago. And while there are also many abiding issues, the circumstances in which they require resolution call for new ideas of public policy.

In the late 1950s I enjoyed an unusual opportunity to think a good deal about the agenda of public policies that would be appropriate for Canada in the 1960s. The even greater privilege was to be able to test and modify my ideas in discussion with many other people. Mike Pearson, Walter Gordon and Maurice Lamontagne were the most active, but countless others contributed. From this process there

* *A Public Purpose*, by Tom Kent, McGill-Queen's University Press, 1988.

emerged a consensus that became the 1962 policy platform of the Liberal party. I was afterwards able to contribute to the implementation of this agenda, serving a government that did what it had told the electorate, with unusual precision, it would do.

Against this background I found myself thinking about a policy agenda for the 1990s. The historical book became to me a preface to the more constructive task of writing about the future. It is not intended for the same purpose as the writing I did thirty years ago. It is not an attempt to suggest policy for a particular party. Over the past twenty years I have quite often disagreed with Liberal positions and actions. Today I am agnostic as to whether the Liberal party has the will and the capacity to formulate a constructive agenda for government.

The proposals made here are, therefore, mere castings into the pool of public policy discussion. Many of them would need a good deal of political consideration before they could become ideas whose time has arrived, ideas that could be incorporated into the platform of one of the political parties.

However, practical ideas are not in great supply at present. The need is for more of them, and for their wider, more realistic discussion. Only by that route will worthwhile ideas come to action. I hope that those will include some of mine, but the larger purpose of this book will be served if it contributes to the better development of public policy only by provocation.

For this reason, I have not been so ambitious as to offer a complete agenda. The neglected issues include some as important as the particular position of Quebec within Canada, minority language rights, freedom of information, the role and functioning of a non-partisan public service. These and others are neglected not by oversight but from self-restraint. Enough has been said with more authority than I would bring to the topics. It seemed better to concentrate largely on policies for which I think there is need of newer ideas; others are noted only to the extent necessary to give the book a coherent pattern.

I am much indebted to the Institute for Research on Public Policy. Both its fellowship program and the editing from 1980 to 1988 of the Institute's magazine *Policy Options* have been of great assistance in formulating ideas as well as in the process of putting them into print. I am particularly grateful to Rod Dobell, President of the Institute, and to its former Executive Director, Louis Vagianos, for their constant encouragement and support; to two fellow Fellows, Gordon Robertson and Eric Kierans, both of whom are among the very best of people with whom to discuss public policy; and to Walter Stewart, not only for the way in which he has taken over the editorship of *Policy Options*, but also for the help he has since given to me.

I am greatly indebted to all the people of the Halifax office of the Institute, not only for their efficient processing of the untidy draft of this book but for their continual helpfulness over nine years of happy association.

Most of the ideas presented in the following pages have been discussed at various times with various people. To list them all is impossible, and to name only some would be invidious. There are, however, a few to whom I wish to express special thanks because, in addition to the stimulation that they provided directly, they went to a good deal of trouble to arrange discussions with some of their colleagues: Paul Thomas of the University of Manitoba; Bill Watson of McGill; Robert Bothwell of Toronto; Robert Young of Western Ontario; Tom Courchene and Richard Simeon of Queen's; Paul Pross and Ian McAllister of Dalhousie; John Langford of Victoria; Bruce Doern of Carleton.

Needless to say, no guilt of association with my opinions attaches to any of those with whom I have talked, nor are they to be blamed for errors of fact or weakness of argument. I should mention, nevertheless, that one of my sons, Andrew Kent, is the originator of what I believe to be among the best of the ideas put forward: that a Senate should be elected in single-member constituencies, the House of Commons by proportional representation. I hope I have done justice to the argument for this reversal of the usual proposal; it would, I think, do much more to improve our politics than any other parliamentary reform.

As in all things, my greatest debt is to Phyllida Kent, whose unrelentingly stern but constructive criticism has made the ideas clearer and the words plainer than they would otherwise have been.

1.

Ideology in Moderation

A realistic agenda of public policy must be set within the range of ideas that are credible as responses to the issues of current concern to large numbers of people, that fit the temper of the times. The range of such ideas is not as wide as party politics, necessarily adversarial, make it appear. Competing for votes, the parties make much of their differences. Election hyperbole dredges up the emotions of past battles, but in office parties must iron out their own extremists. The craft of politics requires, above all, the ability to perceive the consensual attitudes within the society that set the limits to policy, that determine what the public will and will not stand for. Politics is, after all, the art of the possible.

It is an art made more difficult by the rapidity of technological and social change. Societies are less traditional, more restless, in their politics. For a generation, from the 1939-45 war to the sixties, there was a massive shift, in the western world and in much of the Third World, to the view that government could and should make opportunities as equal as possible, and moderate, for the sake of fairness, extremities of rewards. The policies that resulted had many variations, considerable irrelevancies, and some foolishnesses. In the seventies and eighties the pendulum swung to some extent against them. We should not forget, nevertheless, that the economic restoration and growth and, in most countries, the social betterment of

the postwar period, proceeding with little interruption for twenty-five years, constitute an achievement with which that of no other generation of mankind can be compared.

Success, however, usually sows its own failure. Pendulum swing there has been. The challenge to the postwar philosophy mounted in the seventies and eighties extends over many fields. It is reflected not only in demands for cuts, at least relative, in social spending. Most significant, perhaps, are the battles of corporate concentration. They are marked both by indifference to the fate of employees and by the widening of income differentials through the increasingly massive compensation of executives, both those who triumph and those who are dispensed with.

The pendulum swing is expressed also in the erosion of real minimum wages, in reductions in the upper rates of the graduated income tax, and in all the arrangements that permit tax avoidance by the wealthy. There is indeed, in the attitudes that fuel the challenge to a more equal society, an element of the rich taking revenge on the poor, a restoration of the privilege and wealth that, from the forties to the sixties, were in disrepute and even in decline.

Anyone who seeks to construct a policy agenda, rather than to dream wishfully, must assess as objectively as possible what ideas are within the consensus, the range of acceptable ideology, that can be anticipated for the next decade. Those of us who think that opportunities should be made more equal, that differences in income and wealth should be made less extreme than those generated by a market economy in which large concentrations of power rest with a few of the players, must ask themselves whether the pendulum swing against this view is continuing or is near having run its course.

My assessment is that in Canada it has little further to go.

The rich always have considerable advantage in publicity and in the direct lobbying of politicians. The evidence is not, however, that they have made much impression on Canadian public opinion. The Conservative party in 1988 certainly paid respect to this judgement; it was not confident of its 43 percent of the vote until it had given categorical assurances that social programs would not be eroded. This is no guarantee, of course, that they will be safe from all attack; but it is unlikely to be an onslaught, and if it were, due retribution would occur in the next election.

The pendulum swing seems to me in any event to run counter to the more fundamental secular trend in our society. The great extension of our educational system, with many more people completing secondary education and considerably more going to further education, did not take hold until the sixties. We are only beginning to feel its full effects. In combination with advancing technology, these greatly expand the middle class, in attitude even

more than income, by comparison with the proletariat. Middle classes do not tend to be tolerant of great inequalities; historically, indeed, they have been the effective enemies of privilege. Styles, of course, are changing. Middle classes, blue collar as well as white, seek their status more through participatory roles in the workplace than through the adversarial stance of trade unions. The tendencies towards a more equal society do not thereby become weaker. Concern for such programs as medicare and indexed pensions does not disappear.

Perhaps, therefore, a fair judgement is this: the attitudes that will in the 1990s set the consensual framework for our politics are different from those that stirred the reformers of the forties and fifties, but they are not the attitudes of a pendulum swing that would continue to re-entrench privilege and wealth. The ideological limits within which Canadian politicians have to work are not going to extend to the right wing of U.S. republicanism.

This does not mean that those whose views are to the leftward side of the consensus range will have an easier time. Our contemporary society could well provide more equal opportunities and fairer rewards to 80 percent or more of its members, but have an underclass of people who—because of a deprived childhood, location, physical or mental disability—are unable to get inside the technologically complex, affluent world. The successful do not often think "there, but for fortune, go I". The middle class of mild liberals and moderate conservatives may be tolerant of being taxed for the sake of the environment, health, education, income security, but indifferent to minority needs that require a good deal of money for what may often seem to be little result. As the century ends, this could well be the sharpest challenge to the conscience of the reformer.

Nevertheless, that concern apart, I think that it is reasonable to embark in the following chapters on a policy agenda assuming that the moderate ideological range of Canadian politics is not under threat from new champions of privilege any more than from authoritarians on the left.

2.

The Primacy of Parties

Public policies are made by the party politicians who command a majority in the House of Commons. Many influences play on these politicians, often powerfully. They are not, however, determinants. Among all the actors in the making of public policies, the politicians alone have ultimate power; all the rest have only their varying degrees of influence. It is the politicians who determine what weight to give to the competing influences at work on each particular issue. Their decision may often be more passive than active, but that does not change the ultimate responsibility. It lies with the politicians that the electoral process has placed in office.

For most of Canadian history, this could be said without any qualification. With the decision in 1982 to entrench the Charter of Rights and Freedoms in the Constitution, we have elevated the judiciary to act in some respects as a restraint on the powers of the federal Parliament and provincial legislatures. The implications of this change will be discussed later. However, while it may prove to have profound significance in some areas of public policy, it is unlikely to affect most of the agenda under discussion in this book. The primacy of politicians remains the general rule.

The paradox of democracy

Which politicians will exercise that primacy is, of course, determined from time to time by general elections. Canadians take these occasions seriously, as is evidenced by the high level of the turn-out in federal elections. Sometimes a new party leader catches the public imagination and a good many electors seem to vote with some hope or even enthusiasm. But the mood does not last. One election later the government survives only with a minority (1962 following 1958, 1972 following 1968) or with a much reduced majority (1988 following 1984).

Party loyalties have noticeably weakened in recent times. The bands of party stalwarts are smaller. Other people are often uncertain about their choice, for the good reason that the alternatives are unclear. The parties are vague as to what they will do if they are elected or re-elected to government. They inspire little trust that the government they provide will have any close relation to the government they vaguely promise. While it can still be said that Canadian federal elections have more policy content than U.S. presidential campaigns, the margin in our favour is small and diminishing. The style of electioneering is more that of selling soap than of debating issues. Votes are sought chiefly by image-building, through generalities and platitudes, through boosting personalities and bashing opponents. Issues are evaded, rather than alternative national directions offered for electoral decision.

Some participants and commentators claim the 1988 election as one exception, at least, to this indictment. There was an issue: the trade agreement with the United States. But that was, in democratic terms, a phoney issue. There never was any serious doubt that more people would vote for candidates opposed to the agreement than for those supporting it. But the opposition vote would be divided. The real question was whether the Liberals could make the trade agreement so dominant an issue that they would attract most of the vote that was not solidly Conservative despite their failure, through four years in opposition, to develop policies providing any convincing alternative to continuation of the Mulroney regime. It was a bold effort, and marginal voters thrilled to John Turner's initial debating success over the Prime Minister on the trade agreement. He thereby headed off the NDP's challenge for the role of official opposition, which its more coherent policies might well have gained for it if the trade issue had not been made so dominant. But one issue was not enough to defeat the government.

One issue should not be enough. I say this despite my own view that the trade agreement as negotiated is a naively mistaken measure for Canada. An election is not a referendum. The Liberals failed to make sufficient headway against the Conservatives on any other issue,

and the support of 43 percent of the electorate was enough, under our present electoral system, to give the Mulroney government a parliamentary majority and thereby a mandate to implement the trade agreement.

The significant point of this experience is that a plurality of votes, and with it a reduced parliamentary majority, was retained by the incumbent party that, for all the grievous faults of its preceding four years in office, did offer a somewhat more coherently positive, or at least less incoherently negative, stance on a range of policies than did its principal opposition.

The 1988 election thus confirmed what has been apparent from many recent elections as well as public opinion surveys. A relatively educated public now has a firmer grasp of what an election is about than do many of our politicians. It is not to choose the politicians who will govern as they think best when in office. It is to choose the politicians whose declared policies and apparent capabilities best embody the direction of public policies as a whole that most Canadians favour for the next four years.

In 1988 a majority of Canadians did not share Mulroney's faith in the trade agreement as such. But criticism centred on the fear that it would have consequences, particularly an erosion of social policies, that most people would not want. The election campaign compelled Mulroney to give definite assurances that there would be no such erosion. That was crucial. Without the assurance, the Conservatives would not have maintained a majority. With it, the mandate they were asking for became more precise. Their capabilities and their policies, though vague, at least looked as a whole more convincing to more Canadians than those of the one-issue, one-man Liberal party and of the untried NDP.

The concept of a mandate for government is central to democracy. It is the way in which the will of the people is injected into government not for election day alone but for up to a five-year term. The lines of public policy can be democratically set only if the parties offer for electoral choice clear statements of what they would do in office. The resulting mandate cannot, of course, be comprehensive or rigid. Conditions change. New problems emerge. And there are old issues, cutting across most lines of division in opinions, that it is reasonable for politicians to evade. For such reasons, electoral judgement is sensibly based in part on personalities: an assessment of the politicians' sincerity of purpose, common sense and competence. That is the importance of the record. But it does not help the voters much unless they also know to what ends the competence and other qualities will be employed in future. Election campaigning, therefore, should be chiefly about policies, about what the competing parties will do.

Most politicians, most of the time, wish that that were not so. Theirs is a difficult and uncertain trade. It is entirely understandable that they prefer to give no more hostages to fortune than they must. They seek to make no more commitments than are necessary in order to get elected. The purpose of democratic political institutions is to ensure that this minimum is enough to assert the popular will in shaping public policy. The political process is then the instrument by which the people discipline the politicians into saying what they would do if elected and doing it if they are.

The instrument is at present in disrepair. Our political institutions today are little changed from those that were appropriate when travel across the country took days, when most constituencies were areas outside which their residents rarely traveled, when many communities could be reached only by horse-drawn transport, when the medium of political communication was print, supplemented for the leading politicians by such rare personal appearances as vast distances permitted.

Television and aircraft have utterly changed political campaigning. The politicians can be everywhere, provided that the stops are brief. Television brings politics into every living room. But television is the medium of advertising by images, not by detail of information. And the maximum exposure that a political leader achieves by dropping often from the sky turns most of the appearances into brief media occasions, primarily for television, rather than speeches to expound policies.

The politicians have, of course, been fervent in grasping the new techniques of communication. The politics of imagery through TV is far more gratifying than slogging through policy proposals. Their life is much less difficult if getting elected is a business in which the packaging is more important than the product, in which presentation takes precedence over performance. Individual politicians are not to be blamed if the imagery of TV politics has mesmerised them into a shortness of sight that sadly reduces their effectiveness in the work of government. The fault lies in our failure to adapt our institutional arrangements to the new techniques of communication.

Such adaptation is both the more needed and the more practicable thanks to a second, and paradoxical, feature of the information society. Though our schools and universities are far from being all that they could and should be, all the resources that the past two generations have put into the extension of education have considerably transformed our electorate. One effect is greatly to increase the proportion of electors with enough information and understanding to take more sophisticated views on public affairs. Easy travel and, again despite their faults, the electronic media have worked in the same direction.

The paradox, therefore, is that the same trends that have resulted in the politicians trivializing their messages to use the imagery of the TV medium have also increased the public appetite for more informed political discussion. One of the more striking features of the trade agreement issue in the 1988 election, for example, was the frequency of complaints, revealed by opinion polls, about the inadequacy of the information, as opposed to propaganda, on which people could make up their minds. This paradox is, surely, one of the major causes of the widespread cynicism about politics and politicians and of the volatility of political opinion. The message for the politicians should be plain: their trivialization of the political message is out of joint with the times. This is the kind of tension that creates the opportunity for institutional change.

The weakness of parties

In the next two chapters I shall make a series of proposals for reforms in the political process and in our electoral institutions which would, I believe, make democracy more effective and government more efficient. In order to establish the case for these reforms, however, it may be useful first to diagnose the ways in which the politics of imagery has resulted in the weakening of the parties as the agents of democratic government.

Much political campaign advertising is modeled on TV commercials. An analogy from the business world is therefore appropriate. The first effect of the politics of imagery is to shift the balance of interest and power within the parties from the production people to the sales force and the advertisers.

The product of a political party is the policies it will implement if it is in office. But parenting policies genuinely designed to be capable of implementation is hard work. It is far easier to rely on the generalities that go with image-building. There has to be, it is true, some harder stuff. For that, many politicians find far more satisfaction in bashing opponents than in developing and expounding policies. Still, some specifics are necessary to credibility. The easiest to offer are ready-made outside the party: particular projects that please local interests and programs that appease special lobby groups. Those have the additional advantage, over commitments to major national programs, that less political damage will be done if they are dropped after the election.

As was said earlier, it is entirely understandable that politicians seized on the image-making tool provided by TV. It offered an escape from the difficulties and hazards of their trade. The trouble is that the escape is short-term. The imagery soon produces public scepticism. In the not much longer term, it results in progressive deterioration of the

capacity of the parties to run successful governments. There are some signs that the politicians themselves are beginning to recognise this, to acknowledge that they have been neglecting the role of policy formulation in their ranks.

Practical political organization requires the harnessing of a variety of motives. Some people are political activists through associations of family or community. Some enjoy the connection with important and powerful people that party membership may give. Others find in partisan battles a suitable outlet for combative instincts. Others seek the rewards of patronage in all its forms: positions, honorific or remunerative or both; fees for lawyers, consultants, architects, advertising agencies and the rest; business contracts and, in the interventionist state, business favours of many kinds. Other people see party involvement as a way to advance the local interest in roads or whatever. Some are concerned to promote public policies that are in their own economic interests. Many have a broader, more altruistic concern about the shaping of public policies that they believe to be in the public interest.

It is this last group whose role is diminished as the parties seek to sell themselves by their packaging more than their product. It used to be that the normal, almost inevitable medium, for anyone with a lively interest in public affairs, was work within a political party. No longer. Far more hospitable homes for ideas and enthusiasm are now to be found in the countless advocacy groups that promote every kind of cause.

Whether your main concern is the environment or women's issues or aboriginal rights or the Constitution or almost any other issue, you can have far more sense of effective involvement within an advocacy group than within a political party. Indeed, given the plasticity of the parties in face of opinion pressures identified by their pollsters, work within an advocacy group is more likely to have practical results, in changed public policies, than participation in such policy discussions as now take place in the parties.

It is sometimes argued that the rise of advocacy groups has drained the political parties of policy content. There is a chicken-and-egg quality to such discussions. It is at least equally arguable that the decay of the parties created the empty space that the advocacy groups have now occupied. In any event, a reactive process has developed, the trickle has become a stream of people with policy concerns working in the advocacy groups and not in the political parties.

This would have happened even if the elevation of salesmanship in the parties had been discreet. It has not. The people running for public office are now surrounded by highly visible troops: the pollsters, the ad-men, the "handlers" who organize the working days of political

leaders into a series of media "occasions", defined in terms of television pictures and one-minute pronouncements for two minutes of applause.

All these people are the new mechanics of politics. Their role, to the degree that it is required at all, is to tend the machinery. But when the business is image-making the machinery is not behind the scenes. It is not the nature of advertising people to work quietly. They talk. They write. They see themselves not as mechanics but as movers and shakers. And what they therefore create, for the politicians they are supposed to be serving, is not increased public regard. It is public cynicism about politics and politicians.

This effect is heightened by the burgeoning of people who work quietly enough but are known by their fruits. They are the government relations consultants, the lobbyists, the fixers. Their interest is in the spoils of power, but some attach themselves to the opposition party in the hope of later rewards.

Patronage has always been a factor in politics. But as the parties have grown less attractive to the people who are in politics for the policy, they have created more room for people who are in politics for what they can get. One may question whether the actual extent of corrupt practices has increased, whether favouritism in the disposition of government business is proportionately any greater now than it was twenty or fifty or a hundred years ago, whether the rewarding of friends is a mounting perversion. What is certain, however, is that more effort is being put into attempts at all the many ways in which government may benefit particular individuals more, and the public interest less, than honest efficiency would do.

I suspect that the work of the burgeoning fixers is largely a scam. What they clearly do for their fees is to diminish the productivity of scurrying around Ottawa: much more effort produces little more actual perversion. It is the effort, however, of which the public becomes conscious, which colours the style of the political parties. Whether or not politics has become less honest, the smell of sleaziness around it has become stronger.

There are, however, even more important reasons for people's diminished confidence in parties and politicians. The shift from product quality to salesmanship, from policy to presentation, inevitably creates a power change not only in the party organization as a whole but also among the party's top people.

Ours is supposed to be a Cabinet government. That is to say, the conduct of government is the collective responsibility of a group of leading members of the party, or possibly combination of parties, able to win confidence votes in the House of Commons. Among these Ministers the Prime Minister is what the name says: *primus inter pares*. The P.M. has, indeed, great power as the personnel officer who selects the rest of the Cabinet, within the limitations imposed by the

political strength and prestige of party colleagues. Within similar limitations the P.M. controls the Cabinet agenda. Strong prime ministerial views can prevail against the wishes even of a majority of the Cabinet. But that is a very rare event unless the government is headed fast to disaster. The Prime Minister is no President, singly elected to make his or her own policy decisions. The essence of the system is that major policies are made by the deliberations of a group of people who have qualified themselves through their work in public affairs.

All that is a description of how Cabinet government used to be understood and operated. But advertising people can promote an individual much more easily than a group. The parties' concentration on communications has inevitably enhanced the status and power of the party leader relative to even his closest colleagues. Recent Prime Ministers have underlined this by the usual device of inflation. Ministers have been depreciated by increasing their number; Mr. Mulroney's "Cabinet" is twice the size of Mr. Diefenbaker's. There is no longer even a pretence that it operates as such. In so far as there is still collective responsibility for government, it is on an *ad hoc* basis through committees.

In the Trudeau regime the centralization of power in the Prime Minister meant that the government was rarely productive except in those few matters in which Mr. Trudeau's personal interest was strong and steady. Other matters were left to individual Ministers, whose proposals often died in the labyrinth of the decision-making process.

Mr. Mulroney's style was initially in sharp contrast. He and the friends he brought to his office were interested in almost everything, not only jobs for the Tories. The results were so obviously poor that they led not only to changing the office guard but to the delegation of large responsibilities to a Deputy Prime Minister (a title that had been used in the later Trudeau years but then had little managerial significance). The changes probably saved the Conservative neck in 1988, but they were not a return to Cabinet government. They simply spread prime ministerial dominance to two pairs of hands instead of one.

The depreciation of the Cabinet is bound to lessen, quickly and substantially, the quality of the people who run for Parliament. There are many people with the concern and the ability to contribute greatly to public policies who do not have the temperament to aspire to the summit of party leadership, or who—even though they might like to entertain that ambition—know that the political situation makes it impossible of realisation. From this source have come many of the great Cabinet Ministers who have well served the public interest. Now, however, the attractions of such service are dwindling.

Again, this reinforces the other effects of the parties' lessened concern to formulate definite policies. Government is increasingly too pressurised and too complex a job to be learned entirely on the job. A Cabinet that enters office with only vague ideas of what it will do is unlikely to get on top of its problems. It will probably be harried from crisis to crisis and expedient to expedient, driven more by powerful special interests and noisy sectional appeals than by any shaped national policy.

I do not mean that good government comes from blindly adhering to a blueprint. In four years a Cabinet will face many new developments, changed situations, unforeseen difficulties. The need to cope with those, the attention they will require, is the reason why the Cabinet should not start from blank paper, with all its policies to make. It needs a bank of a good many coherent policies that have been thought through and agreed beforehand. Competence in government therefore requires a party platform: not to settle everything in advance but to provide, as a platform should, a place to stand when deciding what else has to be done. To this extent, party platforms are as necessary for a party's success in government as they are fundamental to democratic principle.

In other words, the new communication techniques have not changed the fundamentals of either the electoral or the governmental process. In their first flush, they have made it easier for politicians to campaign largely in negatives and with imagery, avoiding hard issues with facile generalities, vague objectives, emotional appeals, personality-building. But the consequences are quickly coming home to the parties themselves. Their disarray in the face of public dissatisfaction is bound to compel, sooner or later, a withdrawal from the politics of imagery to the politics of the mandate, conferred by the electorate, which is crucial to the Parliament-Cabinet form of democratic government.

This is not to suggest that politics will withdraw from TV. On the contrary, communication techniques will no doubt be further sophisticated and more intensively used. But they are simply techniques. The way they are used in politics is conditioned by the institutional setting in which the political parties operate. Few politicians will be eager for institutional changes. The danger is that they will be long delayed, until the politicians eventually have to be dragged along. But it would not require much organization of public opinion to advance the time to, at any rate, the middle of the 1990s.

3.

Reforming the Political Process

The feasibility of change

In this and the following chapter I suggest a set of inter-related reforms in the political process and the electoral system. Their purpose is two-fold: to increase the extent to which politicians seek office by enunciating definite policies and so obtaining the mandate required for democratic government; and to strengthen the capacity of the parties, when elected, to do what they have said as a main part—though not, of course, the whole—of governing well.

Legislation cannot compel improved performance by politicians. It can strengthen the incentives and the penalties that induce responsible conduct of the Parliament-Cabinet system of democracy.

One objection should therefore be stated and answered at the outset. Some people will say that, while the proposals may be attractive, they are unrealistic. They would have to be implemented by existing politicians, whose vested interests in politics as they are would be hurt. Therefore such proposals must be dismissed as "politically impossible". So runs a common kind of argument, sometimes unashamedly stated by politicians themselves.

The defeatism is short-sighted. Insensitivity to public opinion is not the weakness of most politicians. They know that their trade is in ill repute. They are the people whose lives are made uncomfortable by the lack of public trust and the associated volatility of public support.

They know better than anyone that parties coming into office are poorly equipped to govern. And there is limited satisfaction in winning an election campaign if the subsequent honeymoon is brief, if your party then has a miserable time making a mess of things and quickly plunging in the opinion polls.

This is not to say that institutional change will come easily. Politicians have their full share of preference for the frying pan over the unfamiliar. As with all the the activities of societies, major institutional changes can rarely be made until tensions in the existing system have built up over some time. But the reason why change is often belated, despite the tension, is not that occasions when change is possible do not occur; more often, it is that potential reformers are not ready with prepared plans when the time is ripe for change.

My suggestions are therefore made against the chance that, if such ideas are discussed, if public opinion on the issues is developed, the moment when political change is politically possible may not be far away. That is the spirit in which reforms are accomplished.

The national campaign at home

The effect of television is that election campaigns are fought largely on the screens in people's homes. My first proposal is that we should take full advantage of the opportunity this provides for people to assess, fairly and in some detail, the claims to their votes made by the competing parties.

There would be, in other words, a large extension of "free-time" political broadcasting, making it the central medium of election campaigns. It would be "free", in equal amounts, for all qualified parties. (I will discuss later how "qualified" might be defined). The TV stations would be compensated from the public treasury. On that basis, I suggest that they should all be required to provide an hour of prime time, say from nine p.m. to ten p.m., five or six days a week, for the two or three weeks before polling day. Each program would be replayed the following day, say from one to two p.m., for viewers for whom the evening was inconvenient.

The proposal is here set out in some detail, not in a spirit of finality but in order to show clearly the kind of political programming I have in mind. The suggested ten to eighteen hours of TV time would include half-hour debates, every party having the opportunity to confront each of the other parties at least once. It would be reasonable to make one departure from strict equality among the parties by providing an extra debate, the last in the series, in which the incumbent Prime Minister briefly encountered all the other party leaders in turn.

I question whether the present form of such debates, with a panel of journalists putting questions to the party leaders, is the best. Provided that there is a fair and firm moderator, the debates might be more revealing if short opening statements were followed by the party leaders putting their own questions to each other.

Knowledgeable panels would be more useful for another type of program: to put to representatives of each of the parties the same questions about some of the principal campaign issues—employment, the environment, taxation, day care, or whatever. In order that parties appearing later in the sequence of such programs should not have the advantage of knowing what others had said, it would be necessary that all the programs on one issue be videotaped in advance of any of them being shown.

The remainder of the television time would be available for short talks (of, say, five minutes each) by representatives of the parties, again with equal time for them all. This would probably be the least-watched part of the programming, but it might be improved by regional variations. While it should be stipulated that the representatives must be candidates, it could be hoped that the parties would find it advantageous to display a variety of talent available for the Cabinet, rather than concentrate all attention on their leaders.

This programming would, of course, be provided in the same form on English and French stations, with enough staggering to make it practicable for the leaders or other spokespeople to appear on both if they wished.

As a medium for political discussion radio is not as revealing as television. The structured programming, required to be carried on all stations, might therefore be somewhat shorter, somewhat later in the evening, and with repeats the following morning rather that afternoon. The principles of equal time for the parties to present their viewpoints, with some debate between each of them, would be the same.

If this extensive and fair campaign were to be arranged in the electronic media, at public expense, there would be no reason to permit the parties also to indulge, nationally, in the kind of TV and radio advertising "spots" that reduce politics to the level of salesmanship for protection against mouth and body odours. Advertising paid for by the parties could reasonably be restricted to such additional messages as they think it worthwhile to use locally, on behalf of particular candidates.

In the same spirit, national print advertising, paid for by the treasury, might consist, for each party of, say, two full-page ads in all the daily newspapers and one full-page ad in other appropriate publications. Shorter appeals would be what the parties thought worthwhile, on a local or regional basis, from their own resources.

The details of this proposal are, as I have said, illustrative, not dogmatic. If somewhat more or less time and rather different formats were generally preferred, so be it. The point I would maintain strongly, however, is that this structured national campaign should not be spread over more than the three weeks preceding polling day. My reasons for this will be discussed later. Otherwise, what is important in these suggestions is the principle: that we should use the media to provide the parties with full and equal opportunity to state their cases, directly to people in their living rooms through television, and to a lesser extent through the print media and radio.

This structured campaign would not, of course, involve any control of the other activities of politicians and the media. The parties and candidates would continue to produce their own literature to be mailed or handed out on doorsteps and in shopping malls. They would hold their own meetings and press conferences. The politicians would be reported on, shown on the TV news, interpreted, commented on and speculated about as the media think fit. All of this would be affected only in the sense that it would take place in the context of a publicly-financed campaign providing equal opportunity for the parties to present themselves in circumstances that put a premium on the rational discussion of issues and policies.

Brisker campaigns

In the previous section I suggested that the proposed campaign structure should not be of more than three weeks' duration. Our present long campaigns are survivals from the days when politicians campaigned across the country by train and round the constituencies in horse-drawn carriages. The clumsy process of voter enumeration, which is sometimes given as an excuse for the long interval between dissolution and polling, survives only because it is a source of minor patronage. In the information society, it is quite unnecessary. A permanent voters' list could easily be kept up-to-date.

Long campaigns continue because politicians are people who worry. Public opinion before the campaign begins is based on the impressions people have of the politicians during the previous Parliament. For all the bravado of their images, politicians are understandably nervous of being judged on the record; they know better than the public how many mistakes they have made. They are also, by the nature of their calling, hopeful. They persuade themselves that in the campaign they can cover their faults by making promises for the future, building new images of themselves, exposing their opponents' faults. For that, they want time.

They also want time to whip up the troops. Between elections, politicians are happiest with docile organizations. They need time to turn passive supporters into active party workers for the campaign.

These are not considerations in the public interest. To shorten campaigns to, say, three weeks would considerably improve them as an exercise of democracy. The parties would have to have their policies better prepared, instead of doling them out one by one over the weeks. The issues might therefore be more precise and public attention sharper. The politicians' records of performance, which are better guides for voters than campaign speeches, would be less masked by the image-makers. Paradoxically perhaps, the choosing of our government would be a more serious business, better based on wider thought over the years, if we got on with it more smartly at election time.

This is the strong case for shortened campaigns. There are, admittedly, counter considerations. The one most often advanced is fairness to the opposition parties. The government is normally able to choose the election date. Provided that its senior organizers can keep a secret, the incumbent party therefore has the advantage of more precise preparation, and that advantage would be increased if the campaign were shortened.

The weight of this argument is often, in my view, exaggerated. In practice the government cannot risk giving prior information to many of its people. And, anyway, the date for which the election is called is rarely much of a surprise. It is not difficult for the opposition parties to be virtually as prepared as the government.

However, if the proposals of the previous sections are adopted, it will be necessary to allow for some notice period during which the TV stations can rearrange their programs to accommodate the political hours. Therefore, while the formal campaign can and should be limited to three weeks, an extra week or so will have to be provided between dissolution and polling.

The informal campaign would no doubt start immediately after dissolution. The party leaders would begin to fly around for meetings and media occasions; the pollsters and media commentators would launch into their frenzy of interpreting and speculating. All that, however, is little different from what happens anyway before dissolution, in the run-up period to an election campaign. The need for a notice period therefore does not seriously diminish the value of limiting the formal campaign to a brisk three weeks. That could only improve the quality of the evidence on which voters make their decisions by polling day.

Party members

A political party is a voluntary organization and its internal affairs are the business of its members. They are not matters for legislation.

But who are the members? On this it is reasonable to require a clarity that is enforced in some countries but is lacking in Canada. In consequence, both the Conservative and the Liberal parties have been humiliated in recent years by constituency nominating conventions packed by "members" for the occasion, recruited and herded by rival candidates. In some conspicuous cases the money spent for this purpose has been a particularly sordid corruption of the spirit of public service.

Political parties are essential to representative government. The candidates they nominate become the people among whom we must choose in order to indicate the kind of government we prefer. There is, therefore, a national interest in requiring the parties to follow some due process in the selection of their representatives. What process is for each party to decide for itself, but it should be a process, not a charade or an exercise in buying votes.

The safeguard that could be created by legislation is to cure the amorphous nature of the parties by requiring that each must maintain a register, subject to independent audit, of fee-paying members. The fee could be nominal—say as little as a dollar a year if a party wished—but recognition as a national party should require that auditors be able to check that the registered members are people who take the trouble to make at least some token personal payment to the national office of the party.

The legislation could then provide that, for all matters that a party decides by membership vote (in a constituency, or, if it chooses, more widely) the voters must be members who have shown serious attachment to the party by having been registered for at least six months previously and having actually paid a membership fee within the past twelve months. These conditions could be stated in the legislation as minima. A party that preferred to have more rigorous conditions would be free to do so.

The value of establishing this minimum framework for the parties, in place of the vague organizations they now tend to be, is simply—but greatly—that they should take their membership more seriously. They could then better justify their claim to the electorate that they have the capacity to run the country as a majority of people want it to be run.

Qualifying parties

There is also a second major reason for requiring the registration of party membership. It provides a fair democratic measure to determine

the qualification of parties for the facilities of the formal election campaign and for the other elements of treasury financing which I shall suggest.

The existing treasury funding is diffused among candidates and is plainly biased in favour of established parties. A democratic system calls for two reforms. It should put more resources into the central electoral process, the national campaign of the parties; and it should provide equal support to all parties whose membership entitles them to significant national roles.

Many of us feel regard for the occasional feisty independent candidate, but he or she is an anomaly, detached from the purpose of a general election in determining the government of the country. There is, therefore, no reason to relate the public treasury's expenditure on elections to individual candidates. The national concern is with the national campaigns of the parties. It is those that require adequate and fair funding.

The main change therefore should be to provide the equal facilities suggested earlier for the national campaign on television and, to a lesser extent, on radio and in the print media. If that were the only funding, however, a party with access to large private contributions would still have an unfair advantage. In the next section I shall propose the elimination of political funding by business, but wealthy individuals will no doubt continue to concentrate their contributions on one party, or at most two.

This disparity could be modified by some treasury funding in addition to the facilities for the formal campaign. It might be thought of in two components. The first, in equal amount to each qualified party, would be a block contribution to national party expenses for such purposes as campaign literature, communication expense and travel by the party leader and other principal politicians.

The second element, which could be reasonably proportioned to the number of candidates fielded by each party, might be regarded as a contribution to constituency expenses. There is no good reason, however, to require a party to spread this funding equally among its candidates. The public interest is that the campaign should be, nationally, a fair competition. A party should be free to decide that it can achieve this most effectively by, for example, strong promotion of a group of its leading candidates; that would tell the public more about the kind of government the party would provide than is done through the present concentration on the leader alone.

Some critics may argue that equal, or nearly equal, financing of parties is unfair to the government. If there are two or more opposition parties, considerably more public money will be spent against the government than for it. The objection does not, in my opinion, carry weight. The party in office enjoys, at public expense, the now large

personnel resources of the Prime Minister's Office and the personal staffs of Ministers. These are avowedly partisan workers for the government's re-election. And while the established public service is not partisan, its function is to serve the government of the day. There is no clear dividing line between information for administrative purposes and information for propaganda purposes. Unavoidably, the party in office enjoys substantial electioneering advantages through the resources and facilities of government. The benefits of office cannot be more than balanced by equal treasury financing of several opposition parties.

But which parties? Whatever the details of the treasury financing, the difficult issue of democratic principle is to define the qualifications that entitle a party to share in it. Representative democracy would not be served if we stimulated, by easy money, the emergence of distinctively regional parties, or, indeed, of a multitude of special parties. Those would only confuse the relation between public opinion and the composition of the government after the election. On the other hand, neither is it democratic to cast our politics into a rigid mould by financing only established parties and so making the emergence of new parties extremely difficult, if not practically impossible.

I can think of no satisfactory, democratic way to balance these considerations unless party membership is registered. Provided it is, a reasonable balance can be established by requiring parties to satisfy two conditions of participation in the national campaign facilities and other treasury financing.

One, a party must: *either* have won some minimum number of parliamentary seats in the previous election; *or* it must have a minimum number of registered members. A reasonable minimum under the first rule might be 5 percent of the total parliamentary seats—in the present House of Commons, 15 members. The second rule might be phrased more precisely as a requirement that the party should have had, six months before the date of polling, a membership equal to at least half of the average of the memberships, on the same date, of the established parties which qualified under the first rule.

This condition would not necessarily exclude regional parties. Condition two could best relate to the regional distribution of membership. In the next chapter, when considering an elected Senate, I shall suggest that the five regions appropriate for political purposes are the Atlantic; Quebec; Ontario; the Prairies; B.C. plus the N.W.T. and Yukon. A reasonable qualifying condition would be that the party's membership in each region, as a proportion of the regional population, should be not less than a half of the national ratio between the party's membership and the population. It might also be required that, to qualify for national campaign financing, a party should put up

candidates for some major proportion (say, two-thirds) of parliamentary seats. However, this condition, though simpler than one related to party membership, would not be in itself a sufficient safeguard. A regional party could masquerade as national by running dummy candidates outside its region.

Party money

The voracity of the parties' appetite for money is perhaps the worst of the consequences of the politics of imagery. It sometimes seems that the contest for votes has become chiefly a competition in who can spend most, inefficiently. One suspects that spendthrift politicians provide a killing for the advertising people, pollsters and the rest, though in the case of advertising agencies, particularly, the recompense is less from the parties themselves than from the easy government business that is so unashamedly distributed to the agencies that have served the successful party.

It was a different world, thirty-one years ago, when the expenses of Mike Pearson's successful run for leadership of the Liberal party were $3,000. Now it is possible to spend hundreds of thousands of dollars for nothing more than a constituency nomination. Sordid as that is, I do not think we should deny the citizen the right to spend for political purposes whatever personal income (after tax) the individual wishes. The monetary excesses of politics arise almost entirely from donations that do not come out of taxed income.

I am not referring here to the relatively small personal donations that are encouraged by the present tax credits. Those are difficult to defend in principle; but they exist, their removal would be widely protested, and they do no great harm provided that the maximum credit remains at the present fairly low figure of $500 a year. The sources of unfairness and undue influence are the contributions that are not personal giving at all, because they are treated as business expenses or come from resources otherwise buried from the tax-collector's view.

To say this is not to state a moral indictment of the small business operators and professionals for whom the line between business expenses and personal expenditures is blurred. The fault lies in our present tax system, and the cure is the kind of tax reform I shall propose in a later chapter. Where the blurring leads to major abuse is in the political donations of corporations.

To satisfy their appetites for tens of millions of dollars, both the Conservative and Liberal parties rely heavily on such "business" contributions. This is not, of course, a new problem: witness the great Canadian Pacific and Beauharnois scandals of John A. Macdonald and Mackenzie King. It was subdued, however, with the Depression, the

war, and the extraordinarily placid period that followed in politics. By the fifties and early sixties established businesses, at least, had come to regard political donations as a levy they largely paid to support the political structure as such, often dividing their contributions more or less equally between the two old parties.

It was the appetite of the party organizations for money for their image-building campaigns that put pressure on such informal rules of the game, but some politicians and many businesses responded quickly to the opportunities to exchange claims to gratitude. Whether much of the traffic is real can be questioned. The influence claimed by many of the politicians and their hangers-on is imaginary. Most businesses win no favours for their donations. The extent of the corruption is not, however, the measure of the harm it does. There need to be only a few cases in which it actually occurs—and those there certainly are—to create a widespread assumption that it is rife.

Damaging though that is, it is the lesser half of the objection to corporate financing of politics. The greater half was demonstrated in 1988 by the massive flow of money into business propaganda on behalf of the trade deal with the United States and thus the Conservative party.

Democratic politics is the business of citizens. It is not another business of businesses. Corporations are not citizens. They have, by legal fiction, some of the rights of persons, but these are rights conferred by society for the specific affairs of the business. They are not rights to engage in public affairs. Business executives are, politically, voters like other voters. They can contribute as they wish, personally. But it is entirely contrary to democratic principle that they should have additional political weight by diverting money from their businesses.

A basic reform in our politics is therefore required. In fairness, it should be noted that, since the early sixties, there have been more serious attempts than in the past to control some abuses in political financing, both in the federal jurisdiction and in most provinces. Except in Quebec, however, these have not been aimed at the root problem: the sources from which politicians get money. The approach instead has been to limit the amounts of campaign expenditures legally permitted to parties and candidates. But the definition of expenditures is far from complete. If it were, the law would still not be difficult to evade. Indeed, unashamed evasion of the purpose, if not the letter, of the legislation occurs at the national level; in 1984 the Conservative party kept within the legal limit by declaring that almost three-quarters of the heavy expenditures of the national office during the campaign were not election expenses. Even if such blatant weaknesses were removed, it would remain true that control of

campaign expenditures does not touch the funding of the many political activities outside campaigning.

The reform required is not to tinker with the control of political expenditures but to prohibit political contributions from sources other than individual Canadian voters.

To be equitable, such legislation would apply not only to direct gifts of money but also to contributions of services, equipment or personnel for political purposes. It would extend to indirect gifts, such as the purchase of tickets for employees to attend fund-raising dinners. The contributions forbidden would be not only those to parties but also to candidates for public or party office. To take the most conspicuous example: campaigns for the leadership of the parties would have to be financed entirely by contributions from individuals, not from business expenses.

To be effective, the legislation would have to be not only comprehensive but also tough. Prison sentences are not, in my view, appropriate for offences of this nature, but very large fines are. Any breach of the contributions law should call for a fine of, say, a hundred times the amount of the illegal contribution to be paid by the organization making the contribution and a fine of the same amount to be paid by the recipient organization or candidate. Implementation could not be left to charges laid by individuals. There should be a mechanism, under independent control, for investigating possible breaches of the law and levying penalties, subject of course to appeals to the courts. A possible structure is suggested in the final section of this chapter.

Such legislation would have two main benefits. First, it would help to restore public confidence in politics; it would largely remove the odour of sleaziness. Second, the parties, having less money to promote images, would be bound to work harder at other ways of winning public support, notably through their main function of developing and discussing public policies. An incidental third benefit would be that it would make life a good deal less unpleasant for the many well-motivated people who at present help in fund-raising with little reward except to be the butt of humour.

Party politics would thereby become less attractive to people who see it as a means of manipulating benefits for themselves or their associates. One can hope that as a result politics would in time become more attractive to people with real interest in public policy; that the pool of talent available for candidates to elected office might be deeper.

If business funding of politics is eliminated, there will be little need to maintain the present fussy and ineffective control of election expenditures. True, it would then become more possible for the occasional rich individual to try to buy his or her way to political office out of personal resources. This does not seem to me a serious danger.

Public good sense is generally sufficient to make arrantly expensive campaigning by an individual unproductive of majority support. The slight danger of a few perversions seems to me not to warrant the large administrative effort required for genuinely effective checking and control of all candidates' expenditures. It would be better to concentrate policing on making sure that the money spent by politicians comes only from legitimate sources.

The validity of this view depends, of course, on two conditions. First, that there is no tax incentive, beyond the existing $500 credit, for political expenditures. And second, that the parties are required to make complete returns, available for public inspection, of all the donations—names and amounts—they receive. In public affairs, good is not done by stealth.

In these conditions, it cannot be expected that there wou d be much increase in personal donations to offset the elimination of business funding. The Conservative and Liberal parties would be poorer. They would be, I think, better for it. But even for very fat people, slimming is a process that can go too far. The elimination of business funding is therefore indissolubly linked to earlier proposals for public treasury financing of national election campaigns.

Essentially, my suggestions would mean that political parties would become genuine voluntary associations, with clearly defined memberships supporting their on-going activities by personal contributions. A few of these parties—at present three, sometimes in the past four, perhaps in the future one or two more—would establish their national significance by the size and spread of their membership. They would thereby become entitled to equal taxpayers' financing of their campaigns, of the kind suggested earlier, on the occasions when the nation needs its political parties as the agencies through which it chooses the direction of its government in a general election. That, I submit, is how representative government should be.

Trade unions

A prohibition of business financing in politics carries with it some requirements to ensure fairness and to prevent activities that would defeat the purpose of the prohibition. The political contributions of trade unions are not strictly symmetrical with the diversion of business resources to politics, but some of the same considerations are applicable. Trade unions are like corporations in that they are given particular legal rights and protections appropriate to the pursuit of specific economic objectives. Membership requires dues and their payment is often, in practice if not in law, a condition of employment. It is essentially undemocratic that part of those compulsory dues should be donated to a political party that some members of the union

may not wish to support. Such contributions should be prohibited just as clearly as those of business corporations.

Advocacy

The related and difficult field is advocacy advertising. It would not be democratic to prevent a special interest group from advocating its cause in any way it wishes, unless the practical effect of the advocacy is to support one political party against the others. This is no problem if the group is financed entirely by personal contributions. But advocacy such as the advertising campaign against Mr. Broadbent in 1988 is directed at one particular political party and would be an evasion of legislation about such contributions.

It is not easy to prevent such abuse without interfering with the legitimate expression of opinion. The minimal safeguards relate to disclosure and timing. They should apply to any group that advocates a public policy—that is, what the federal government should or should not do—and draws less than, say, two-thirds of its revenue from personal contributions in Canada. In any advertising in the media, direct mailing or other unsolicited literature, such an organization should be required to identify its other financial sources and state the proportion they are of its total revenue, in type at least as large as that used for the body of the message.

Secondly, it is reasonable to regard advocacy groups as directing themselves to the long-term influencing of public opinion. It is not an interference with genuine freedom to prevent them from distorting the political process by acting as subsidiaries to parties. During election campaigns, therefore, there should be an absolute prohibition of advocacy activity by organizations that, in accordance with the definition of the preceding paragraph, depend on corporate interests for any substantial part of their financing.

Such regulations would not be easy to enforce, even if supported by severe penalties for their breach, with our tax system as it is; the inducements to attribute expenditures to business expenses rather than to tax-paying individuals are too strong. It may be noted, however, that the tax reforms suggested in a later chapter would virtually eliminate such inducements. In that case, the proposals of this section would be back-up safeguards rather than front-line regulations requiring frequent enforcement action.

There remains, however, another problem. In recent years by far the largest advocacy advertiser has become the government of Canada. There is, of course, a respectable excuse. People need more information about the government programs that are supposed to serve them. To the extent that what is provided is genuinely information, the burgeoning of government information programs is

an entirely proper response to the need for government to be more open—a need that grows as our affairs become more complex.

But the boundary between information and propaganda is difficult to fix, even for scrupulous people. Governments have in fact become increasingly unscrupulous in mounting, at taxpayers' expense, information programs plainly designed to inform only to the extent that the government's alleged virtues are thereby extolled. The effect is to give an improper advantage in publicity to the political party in office, as well as richly to repay that party's supporters in the advertising business.

The way to stop this would be to establish an independent monitoring body. It could create some restraint merely by publishing objective criticism when government goes beyond genuinely factual information about its programs and steps over to the predictions of benefits and claims to glory that should be reserved for political speeches. The monitoring body would have real teeth if, when it determined that information had become propaganda, it had power to order the treasury to provide equal public funding to the opposition parties to publicise their viewpoints. I would hope that this might become one of the responsibilities of the commission of political ethics suggested in the final section of this chapter.

Lobbyists

One of the most distressing phenomena of the past fifteen years or so has been the extraordinarily rapid growth of lobbying activity in Ottawa. The fortunes that have been made in this parasitical business can indicate only two things: either government decisions have become highly sensitive to the pressures of special interests; or Canadian businesses are pathetically naive in their willingness to pay large fees to people who achieve little or nothing for them. The truth is probably a mixture of the two explanations, equally sad reflections on the state of both public and private management of our affairs.

Some lobbyists, of course, are of a type long familiar: trade or professional associations representing their members. The mushroom growth has been of lobbying firms, middlemen who receive payments to represent other organizations in their dealings with government or to facilitate the access of client organizations to politicians and government officials.

There is belatedly widespread recognition that, at least, lobbyists should be required to register their existence and provide some indication of the nature of their activities. Adequate legislation would go considerably further. It should require publication by all lobbyists of detailed, audited financial statements in which the fees paid to the lobbyist by each client must be specified. There should be an

accompanying requirement for an audited statement of the direct expenditures of each client, or member of an association, on the projects in which the lobbyist was involved.

It would be difficult, in the present administrative regime for business taxation, to ensure accuracy in such statements. Again, however, the reforms that I shall suggest would lessen the incentive to spend pre-tax money lavishly and make expenditures that are marginal to a business easier to identify. We could therefore have confidence that a regulatory regime for lobbying would throw some illumination on what is now the very unhealthy murkiness of the relations between business and government.

Political ethics

The prohibition of business financing of political activity would remove many conflicts, real or suspected, between the public interest and the personal interests of public persons. It remains possible, nevertheless, that those persons can be bribed and that, in using their ability to make or influence public decisions, they will be motivated by their own financial interests or those of family and associates.

Public people of integrity have in the past insulated themselves from self-interest either by divesting themselves of some kinds of assets or by putting all their assets into blind trusts. The weakness of the second is that it provides real assurance of integrity only for those who would not offend anyway; others, as recent experience has demonstrated, have no difficulty in overcoming the blindness of the trust.

It is now generally agreed that more effective policing of conflicts of interest requires a commission with broad powers to oversee the financial affairs of elected persons and senior officials. In my view, this function could appropriately be combined with policing responsibilities in the implementation of the suggested legislation regarding political funding, party membership, advocacy and lobbying.

Such a commission, which I will call the Commission of Political Ethics, must obviously be entirely independent of the government of the day. It should be responsible directly to Parliament, not to any Minister. Its members might be appointed for fixed terms on the nomination of a parliamentary committee of backbenchers from all parties. The appropriate chairperson of the committee would be the Speaker, who might be assisted by a small panel of judges to advise him or her about suggested nominations. The Commission should appoint its own staff—though many might be recruited for periods from the public service—and its estimated expenditures should be

submitted directly to Parliament without requiring Treasury Board approval, though not necessarily without Treasury Board comment.

The Commission would be responsible for the review and audit of all returns required concerning political funding, party membership, advocacy and lobbying activities, including the monitoring of government advertising. When reports were inadequate the Commission would be empowered to require any appropriate further information or explanation. If the review created any suspicion of irregularity, or if this was indicated by evidence submitted from any other source, the Commission would be responsible for initiating investigations, in conjunction with the RCMP when required. If the outcome was an admission of fault, as might often be the case for fairly minor offences, the Commission would have power itself to effect the kind of settlement that is common in tax administration, requiring correction of the offence and some penalty. For major offences, and in other cases if satisfactory settlement was not reached, the Commission would lay charges before the courts.

A parallel role for the Commission of Political Ethics seems to me appropriate to conflicts of interest. All elected MPs, Senators, judges appointed by the federal government and all appointees to Order-in-Council positions (who include, of course, Deputy Ministers) would be required to maintain with the Commission a complete file, regularly up-dated, of financial assets and liabilities, their own and those of their immediate families. These files would be strictly confidential, as long as no conflict of interest was identified.

If there were any reason to suspect that the information given might be incomplete or inaccurate, or if there were any indication of a conflict, actual or potential, the Commission would have power to question the person concerned. If this showed that the suspicion or doubt was unfounded, that would of course be the end of the affair. If the Commission were not fully satisfied, it would suggest that the relevant assets be promptly disposed of or the relevant liabilities discharged. If this were complied with, confidentiality would continue. If it were not, the Commission's next step would be to put the affair before the superior of the person concerned. (This step would, of course, be omitted if the person concerned were the Prime Minister himself). If there were still no satisfactory resolution, the Commission would be responsible for making the alleged conflict public by laying charges under the legislation.

Such a procedure seems to me the most practicable way to police conflicts of interest without requiring everyone in public life to expose his or her family's whole financial position to public knowledge and comment, which would certainly be a major discouragement to public service.

Conclusion

The Commission of Political Ethics would be expensive, though probably less so than the Auditor General. It is surely reasonable to spend as much, if necessary, on monitoring the probity of political activity as on chasing the dollars of public expenditure. In any event, the proposals of this chapter as a whole would probably represent a saving for the taxpayer. While direct treasury expenditure for general elections would be increased, there would be a large reduction in, to use the contemporary jargon, tax expenditures. The money that the parties now spend so lavishly is in considerable part money that would otherwise be paid in taxes as business and professional income. While present financing is too murky for precise estimates to be possible, it seems safe to say that on balance the treasury would gain as much as it spent to implement these proposals.

It may also be noted that all of the proposals of this chapter are within the jurisdiction, for our national politics, of the federal Parliament. It could be hoped that many of them would be copied in provincial jurisdictions. Even without that, however, the democracy and the probity of Canadian politics would be much enhanced.

There would remain, nevertheless, two major deficiencies in the political process: the disparity between the votes cast for parties and their strength in the House of Commons; and the absence of regional representation in our federal affairs. Here, effective cures require federal-provincial agreement on a constitutional amendment. They are therefore the subject of a separate chapter.

4.

True Representation

Principles and the Constitution

The fundamental principle of democracy is, of course, "one person, one vote". The Canadian constitution largely reflects that principle. Representation in the House of Commons is allocated among the provinces in proportion to their population. But that distribution is subject to certain riders. The most restrictive is that a province cannot have fewer MPs than it has Senators. Prince Edward Island has a constitutionally entrenched entitlement to four Senators and thus four MPs. Of every thousand Canadians, only five live in PEI. The vote of a PEI resident could therefore be given the same weight, in determining the composition of the House of Commons, as the vote of any other Canadian only if the total number of MPs were ridiculously inflated to 800. The principle of "one person, one vote" can be fully implemented only if Prince Edward Island is persuaded to give up a constitutionally entrenched right.

This is only one example of the difficulties. But they do not make change impossible. If public opinion in favour of reform is strong, practitioners of the art of the possible can be ingenious in devising the trade-offs that reconcile people to the sacrifice of some vested interests. Prince Edward Island, in particular, is already so much a client of the federal system that its acquiescence, in reforms for which there was a

clear national will, could surely be bought without great additional cost.

Therefore, though I fully recognise that it is not immediately practicable, I propose to set out the full scheme of electoral reform that would, in my view, give us a constitution for healthy politics. If ideas for change are widely discussed it is sometimes not many years before they take sufficient hold in public opinion to become irresistible.

As was noted at the end of the last chapter, the weaknesses of our present electoral system are of two kinds: first, there is only an erratic link between the way people vote and the resulting party strengths in the House of Commons; and we have no institution that qualifies representation by population in the way that is needed for the satisfactory operation of a federal system in a large country—that is, a body that legitimately articulates the regional considerations which should be taken into account in national affairs.

The bare bones of my proposal are, first, we should shift to proportional representation in elections to the House of Commons. Second, we should create a Senate providing equal representation for five regions. This would have less power than the Commons but, by being elected from single-member constituencies, it would take over the role of local representation that is now ineffectively in the hands of MPs.

The case for PR

I would not advocate proportional representation (PR) if it meant that single-member constituencies disappeared from our political system. In a country as large as ours, it is important for people in smaller cities and rural areas to feel that they have at Ottawa a representative of local concerns. But this role, as I shall argue later, could be performed better by elected Senators than it is by MPs. Provided there is such a Senate, the case for electing the Commons by PR is, in my view, overwhelming.

Admittedly, most of us (I included) have been slow to come to this view. We have been ensnared by the classical theory of election by plurality from single-member constituencies: that it concentrates politics almost completely into two parties; that it thereby enables the people to exercise a clear choice of government and opposition; and that, since the party that gets a plurality of the popular vote will almost certainly get a clear majority of elected members, it produces strong and stable government—in contrast to the uncertain manoeuvres among the parties that complicate government in a multi-party system.

This may be a good theory for Britain, where it was developed. It plainly does not work in present-day Canada. Our long period of

remarkably stable government faded more then thirty years ago. Since 1957 we have had twelve general elections; only six have produced majority government. There is a more fundamental fault. In three elections—1957, 1962, 1979—the party that got more members elected than any of the others, and so formed the government, was not the party with the largest number of votes across the country. Democracy that is not.

Yet the hold of the British idea is so strong that the actual behaviour of our political system is widely regarded as an aberration. There have been three or four parties in Ottawa for half of the time since Confederation, and continuously so for decades now, and yet a two-party system continues to be thought of as the norm to which we will somehow return. There is no basis for such blind faith.

In a country as regionally diversified as this, no electoral system can make it easy for a party to maintain both coherence and a significant presence across the nation. It is true that the United States has maintained a consistent two-party system, but there the direct election of the President is a far more powerful force, in moulding opinion to a simple A or B choice, than operates in a parliamentary system. The price is paid in the incoherence of the party divisions in Congress. We have no reason to envy the Americans their system as opposed to ours. The fact must nevertheless be faced that there is no likelihood that we will have fewer than three parties in the foreseeable future, and that there will therefore continue to be, with our present electoral system, an uncertain connection between the way we vote and the government we get. Most recently, in the 1988 election, 43 percent of the popular vote was sufficient to give the Conservatives a substantial parliamentary majority, and thereby clear constitutional right to implement the trade agreement although Canadians had divided in the ratio of only three votes for the Conservatives to four votes for parties opposed to the agreement.

The need for a different electoral system is not only to make voting real, in the sense that the policies of government will be the policies most people vote for. We need it also in order that the national parties, whether in government or in opposition, will have—and be seen to have—valid associations with all parts of the country. Election by plurality often means that large areas have no one to speak for them in one or other of the party caucuses.

In the 1980 election, for example, there were over 500,000 Liberal voters in the three western provinces of Saskatchewan, Alberta and B.C., but the party was generally regarded as "wiped out" in the West, because all these votes did not produce a single member in the caucus of what was, nationally, a majority government. This under-representation, which has been almost as severe ever since 1957, of course did much to create Western alienation from Ottawa.

For even longer periods the Conservatives appeared to be a purely "Anglo" party, not because they got no votes in Quebec but because the electoral system denied representation to those votes. To take 1980 again as the example, 350,000 Quebecers voted for Conservative candidates, but they returned only one Conservative MP. The shoe is now, of course, very much on the other foot. The Conservatives owe their good majority to their predominance in Quebec; the rest of the country in 1988 returned 114 opposition members to 106 Conservatives.

Transferable alternatives

That election by plurality distorts the representation of public opinion is now widely recognised. There remains, however, much reluctance to turn to proportional representation. Instead, various ingenious ways of lessening the ill-effects of plurality elections have been suggested in recent years. The best-known proposal is that of the Pepin-Robarts task force on Canadian unity, which called for the addition of some MPs not elected in constituencies but seated in the House as representatives of regional minorities. This proposal and its variations would have the disadvantage, in my view, of creating a category of second-class MPs without fully correcting anomalies in representation. If we must stop short of PR, it would be better to adopt the transferable vote in single-member constituencies. That has the merit that it would not require a constitutional amendment. It might be a useful interim measure. But it is not a substitute for the thorough reform that PR would be.

The Senate

Proportional representation for the House of Commons is acceptable, however, only if we also have an elected Senate. There is now no reasonable justification for maintaining the Senate as it is. The worth of some of its members and the value of some of its activities do not alter the fact of an appointed Senate's irrelevance as a second chamber of Parliament. Because it has no democratic legitimacy, it has no authority in the political process. Either it should be abolished or it should be replaced by a body with the same name but an entirely different nature, because it is elected.

The second alternative is greatly to be preferred. A unitary state has no particular need of a second chamber in its Parliament. Federations do. Almost all have elected Senates. Canada has suffered severely from being an exception. Indeed, for a federation with units of such greatly different populations as ours, it is particularly important

to balance representation by population by means of a forum for the articulation of regional viewpoints on national affairs.

The lack of such articulation in Ottawa has been a major cause of the tensions between the federal government and the provinces. In recent times it has become a major cause of the erosion of federal authority relative to that of the provinces. In the absence of effective regional voices in Ottawa, provincial Premiers have increasingly assumed the role of spokespeople not only on the provincial matters for which they were elected but on federal affairs. In the final chapter of this book I shall argue that an elected Senate is crucial to the consensual federalism that is essential to national policies.

While there is now a good deal of support for an elected Senate, the discussion has underlined considerable difficulties. The most fundamental concerns the powers of such a Senate relative to those of the House of Commons. In the U.S. system, with executive authority stemming from the direct election of the President, this is no great problem. The Senate can have power equal to, or even greater than, the House of Representatives because the President is not responsible to either. This cannot be so when legislative and executive authority emerge from one electoral process. The government's responsibility to "parliament" cannot be a responsibility to two chambers, separately elected. There can be only one place where the government stands or falls. And that is the House of Commons, the body designed to mirror national opinion. A Senate mirroring regional viewpoints must be indeed the second chamber, not an "upper" house.

Such a Senate may contribute importantly to the discussion of all public affairs. It may initiate legislation. It may propose changes in the legislation passed by the House. But in the last analysis—after a decent interval (six months? nine months?) for differences between the two chambers to be worked out—it must be the House of Commons that prevails; its legislation passes even if a majority of the Senate disapproves.

The question about an elected Senate therefore becomes: why should persons of ability and ambition go through the contest of getting elected to a secondary body, rather than to the House of Commons where power resides, which provides almost all the opportunities to become a Minister of the Crown?

An answer often suggested is that election to the Senate should be a gentler business. Since governments would not fall in the Senate, there would continue to be no reason to dissolve it along with the House of Commons. Instead, Senators could serve for fixed terms, for six or even nine years before going back to the electorate.

Though it is sometimes claimed that wisdom would naturally accompany such stability, the objections are obvious. Election to the Senate would indeed be more attractive than to the Commons—for

people approaching retirement. Its elections would indeed be quieter: the voters' turnout would be low. Such a Senate would be a second chamber indeed; it would soon be almost as much a nullity as the present retirement home.

That it is a second chamber does not mean that a vital Senate can be detached from the mainstream of politics. It should be elected when the Commons is. It can provide significant impact for regional viewpoints only if the concerns that it reflects, through regional mirrors, are the same concerns that operate in the shifts of national opinion expressed in general elections.

There is a way to achieve this, to create a Senate that would be as attractive to some politicians with active minds as the Commons is to others. It is to elect the Senate from constituencies that would make its members the spokespeople in Ottawa not only for broad regional viewpoints but also for local interests. The alliance is natural.

The belief that MPs can and should play the role of local spokespeople is a historical survival with little present reality. It goes back to the days when national issues were simpler and much less pressing, and when many constituencies were far distant in travel time from Ottawa. Truly national issues are now much more present and, thanks particularly to television, voting at general elections is almost entirely an expression of preferences among the parties.

In a tight contest, of course, the candidate can make a difference. But everyone knows that the elected MP goes to Ottawa as a party person, to support a government or to work for its defeat. No one expects him or her to break party ranks because of a local issue. One who does has a short political life. The MP who can do something concrete for constituents is the MP who is a power in his or her party and therefore can, when on the government side, have some influence in obtaining help for a local business, getting wharves repaired, building a post office or, nowadays, keeping a post office open. Otherwise, the MP plays some role as a facilitator or ombudsman in the brushes of some constituents with the federal bureaucracy. But none of this is primary in the MP's working life and, unless it is very conspicuously neglected or done with very special showmanship, is rarely decisive to election.

An elected Senator would be very different. He or she would have the avowed responsibility to champion regional viewpoints, which associates with local interests far more readily than do national party policies. It is true that most Senators would also have party affiliations, but their regional role would be reinforced by the fact that the government would not stand or fall on Senate votes. Senators would have much more license than MPs to press local interests publicly. If they were elected from single-member constituencies, they would be much better placed than MPs now are to be not purely party

persons but to fulfill also the traditional function of representatives of all their constituents.

In that case, the Senate would not be distinctively a place for older persons. Popular interest in choosing a Senator would probably be at least as great as in the simultaneous election for the House of Commons. To be a Senator would be a position worth anyone's struggle. It would provide an alternative route for younger people to gain attention as politicians. For some temperaments, it would be a better route than the back benches of the House of Commons. The distinction of roles would add considerably to the vitality of our politics and would broaden the range of talents available for leading positions in the parties and eventually in government.

PR and minority government

With such a Senate, it would be practicable to use proportional representation to make the House of Commons the fair representation of public opinion that it should be. This does not require the extreme version of PR under which there is one nation-wide constituency for which each party puts up a list of candidates and ballots are cast as simple votes for parties. If a party receives, say, 30 percent of the national vote and the House of Commons is 300 strong, then the first 90 candidates on that party's list become MPs. Parliament precisely mirrors public opinion.

In its pure form, such an electoral system invites, of course, the Israeli disease: small sectional or sectarian parties. Inoculation against that is possible, by gatekeeper provisions. A second objection—that the listing of candidates gives too much power to the central organization of the parties—can also be lessened by democratic procedures within the parties.

Nevertheless, a national constituency would give politics a mechanistic character that might reduce public interest. Fortunately, the benefits of PR are realisable while staying much closer to the familiar idea of constituencies. Provided that there is no multitude of small parties, a close linking of parliamentary strengths to popular votes can be obtained by applying the PR principle in constituencies each returning ten or so members. The form of publicly financed national campaign proposed in the previous chapter would make it most unlikely that the number of national parties would increase by more than one or two, if at all.

However, if we retain anything near the present size of the House of Commons—and a large increase would certainly make it less effective—constituencies returning, say, ten members would have to be of large area in all but the most urban parts of the country. The case

for PR continues to be dependent, in my view, on a Senate elected in single-member constituencies.

Whatever its form, and even if we continue to have only three national parties, PR would probably mean that we turned our backs on majority governments. Not since 1930 has any Canadian party won a majority of the popular vote. The closest since then was the bare 50 percent accorded to the Conservatives in 1984. With PR, that might have been less: some voters whose main concern was to get the Liberals out might have chosen the NDP or other alternatives, instead of seeing a Conservative vote as their only instrument. But even if the voting had been the same, the "sweep" of 1984 would have produced, with PR, a House of Commons not of 210 Conservatives swamping 72 others but of 141 Conservatives facing an equal total of other members.

The main defence of the present electoral system is that minority government is weak and unstable government. At most, that is only half an argument; as noted earlier, half of our recent elections have produced minority governments anyway. But there are other reasons why the argument is not convincing.

Politicians in office make much of the virtues of majority government. It is more comfortable for them. But it does not follow that minority governments, resulting from a PR electoral system, would be more unstable and thereby produce more frequent elections. Few politicians relish frequent elections, and nor does public opinion. A party that precipitates an early election without a clear, strong reason of public policy is unlikely to be treated well by the electorate. A government based on the largest party in the House would have to be in considerable trouble before it was in the interests of two or more other parties to contrive to defeat it.

It is true that there would have to be a clarification of some parliamentary rules and conventions. To avoid constant apprehension of the consequences of government defeat on a relatively casual vote, it would be necessary to define confidence motions as those that the government so declared in advance, plus a limited number of occasions per session when an opposition party could move want of confidence. There would no doubt develop a more frequent practice, on both kinds of occasions, of some parties avowedly abstaining. A government defeat on other votes would not call for either resignation or dissolution.

More fundamentally, it would have to be clear that government defeat on a confidence issue did not automatically entitle it, as has lately tended to be assumed, to dissolve Parliament and go to the country as a government. The opposition parties would be entitled to the opportunity to form, either by agreements of support or by joining

in a coalition ministry, a government that could command majority support in the House.

There is, in other words, no particular reason to expect that PR would result in more political instability, in the sense either of more frequent elections or of considerably more frequent changes of government. The other fear is that, even if they are not in fact more unstable, minority or coalition governments will be weak. They will, it is said, be unusually sensitive to immediate pressure and particularly unwilling to take measures that yield their benefits over time and are unpopular in the short run.

This may, at first sight, seem to be a reasonable theory. On the record, however, it is far from clear that the majority governments of the past thirty years have been less short-sighted and less easily pressured than the minorities.

Nevertheless, we must recognise the strong tendency of contemporary governments, in many countries, that can be described, according to one's viewpoint, as taxing too little for what is spent or spending too much for the amount of taxation. The result in either event is an accumulating burden of interest costs passed on to future governments and taxpayers.

The whole set of reforms to the political process put forward here is designed to pressure the politicians to be more clear-headed and franker about issues and policies. In that context the public at large, which is more realistic than the politicians of imagery like to think, would not be long deceived by a party that continued to trade on short sight. Indeed, the present disparity between the way people vote and the resulting composition of Parliament is one of the sources of the sense of helplessness and hopelessness about politics that enables governments to get away with poor performance. It is fully reasonable to expect that the minority or coalition governments which emerged from a reformed political process would be considerably more, not less, responsible than those, majority or minority, that we have been experiencing.

Many people will consider this an overly optimistic view and, while I think that it is reasonable, I do not suggest that we put all our trust in it. In later chapters I shall be making suggestions—about taxation, about monetary policy, about incomes policy—that would strengthen the incentive to good fiscal management. On balance, it seems to me that such extra risk as there is that a minority government will sometimes be particularly short-sighted is small beside the great improvement in our political health that would come from a direct relationship between the way people vote and the politicians they get as their representatives.

Electoral arithmetic

If this prescription—a House of Commons elected by proportional representation, a Senate elected from single-member constituencies—ever receives significant consideration, there will no doubt be much discussion of the details. I make some suggestions for the sake of giving illustrative precision to the idea, but with full recognition that there would be many other inputs before a change of such a kind could become a practical possibility.

There would be no major difficulty about the details of PR if the required multi-member constituencies could cross provincial boundaries. To that, however, there would be much resistance. On the other hand, if we are to keep a House of about the present size, the Atlantic provinces—all of them, not only Prince Edward Island—have populations smaller than is desirable for constituencies returning enough members to assure that the final outcome is a House accurately reflecting the popular vote for each party.

It certainly is not desirable greatly to increase the number of MPs. On the contrary, their effectiveness could be increased if they were somewhat fewer. On balance, the best solution seems to me to be to put up with Atlantic constituencies of less than ideal size. Table One illustrates a distribution that would slightly reduce the membership of the House of Commons, to 254, and would provide a pretty even distribution by population except that Prince Edward Island would be somewhat under-represented; to increase it from one to two members, however, would be compatible with anything near fair representation by population only if the total membership of the House were increased to more than 350—which is a high price to pay.

In this scheme Quebec's 65 members would be divided among five or six multi-member constituencies, while Ontario's 91 members might best come from seven to nine regional constituencies. Alberta and British Columbia might each have two constituencies, and all the other provinces one each.

There is no good reason why an elected Canadian Senate should provide equal representation for provinces. The circumstances in which the Fathers of the U.S. constitution chose equal representation for the states were entirely different from ours today. It would be ridiculous to ask Quebec, in particular, to accept that it is a province like the other provinces, including Prince Edward Island. For this reasons, I must part company with Western Canada's advocates of an "equal" Senate.

Instead, we should in this one respect stick to the original concept of the Senate: equality for regions. But we cannot now ask the West to be one region. It must be two, for a total of five.

Table One: Seats in a PR House of Commons

Province or Territory	Population (1986 census) to nearest thousand (000s)	Number of MPs *	Population per MP (000s)
Newfoundland	568	6 (7)	95
P.E.I.	127	1 (4)	127
Nova Scotia	873	9 (11)	97
New Brunswick	709	7 (10)	101
Quebec	6,532	65 (75)	100
Ontario	9,102	91 (99)	100
Manitoba	1,063	11 (14)	97
Saskatchewan	1,010	10 (14)	101
Alberta	2,366	24 (26)	99
British Columbia	2,883	29 (32)	99
Yukon & N.W.T.	76	1 (3)	76
Canada	25,309	254 (295)	100

* The figures in brackets show the present representation.

This creates a difficulty of demarcation. Alberta is very different from the other two Prairie provinces. It has more people than they have together, and not greatly fewer than British Columbia. It would be unreasonable, however, to ask Canada east of the Manitoba boundary to accept three western regions. The practicable solution is to join British Columbia with the territories to make a Pacific plus Northern region.

This need not involve a gross over-representation of B.C. in the Senate, because the territories should have an abnormally high ratio of Senators to population. There are two good reasons. One is the vastness of the distances to be embraced in a constituency. The other is that, whatever the form in which they achieve provincial status or something akin to it, the federal government will continue to play an abnormally large role in northern societies.

Table Two: An Elected Senate

Province or Territory	Number of of constituencies *	Average population per constituency (000s: 1986 census)
Newfoundland	6 (6)	95
P.E.I.	1 (4)	127
Nova Scotia	10 (10)	87
New Brunswick	8 (10)	89
Atlantic Region	25 (30)	91
Quebec	25 (24)	261
Ontario	25 (24)	364
Manitoba	6 (6)	177
Saskatchewan	6 (6)	168
Alberta	13 (6)	182
Prairie Region	25 (18)	178
British Columbia	19 (6)	152
Yukon	2 (1)	12
N.W.T.	4 (1)	13
Pacific/North Region	25 (8)	118
Canada	125 (104)	202

* The figures in brackets show the present Senate seats.

My suggestion is that each of the five regions should have 25 constituencies, for a total of 125 Senators. In accordance with the principles of representation of regions, as a balance to representation by population in the House of Commons, the average size of constituencies would vary between the extremes of 364,068 in Ontario and

11,753 in the Yukon. A suggested scheme is set out in Table Two. Again, the main anomaly is the under-representation of Prince Edward Island. It could be overcome if there were agreement that the island should have, in effect, 1½ senators: one constituency for the greater part of the province, and the other shared with the nearest part of New Brunswick. In my illustration, however, provincial boundaries are respected.

Summary

The proposals of this and the preceding chapter would go far, I hope, to give us a politics of pragmatic concern with issues and policies, in place of a politics of images, personalization and sleaziness. They would create a new sense that how people cast their vote does determine the kind of government we have.

Some people are sceptical about the value of changes in institutions and processes. They can point to unhappy experiences. In both the public and the private sectors, organizational change is often no more than a symptom of failure to devise an effective policy. You do not know what to do about a problem, so you fiddle with the organization in order to seem to be doing something, and hope that a better policy will somehow emerge from the new organization. The hope is usually misplaced.

The broader point underlying this is that institutions are largely what people make of them. If our politicians were better people, wiser and more disinterested and so on, the public would be much better served by our institutions as they are. That is true, of course, but it is not an argument for doing nothing but preach.

In politics, as in other competitive activities, bad coinage will usually drive out good coinage. Once some athletes enhance their performance by taking drugs, more and more feel compelled to use the same device. Once some hockey players get away with violence, more will substitute rough play for skill. If we allow businesses to finance politics, greed on both sides will competitively drive up expenditures and result in more corruption. If we allow brief, commercial-style advertising spots to be used in national election campaigns, their otherwise vacuous content will inevitably degenerate into more vicious attacks on opponents.

The proposals are, in effect, changes in the rules of the game that would, if one puts it in moral terms, make the high road more rewarding. Most of the players, voters and politicians, would like the results. Only a little leadership of public opinion is required to make it practicable to outlaw business funding; to regulate advocacy advertising and lobbying; to establish strong safeguards against conflicts of interest; to create a coherent framework for political parties

by the registration of membership; to arrange a publicly financed framework for general election campaigns that would give a fairer and fuller presentation of party positions. These are ideas whose time is at hand. They can be achieved by the pressure of public opinion.

The most fundamental reforms, of the electoral process for the House of Commons and the Senate, are admittedly a different matter. They depend on a constitutional amendment for which the time is not yet ripe. But if we first clean up our politics to the extent that, I believe, the earlier changes would do, it might not be too long before we had enough politicians sensitized to the advantages of electoral reform. It is worth attempting.

5.

Our Small World

This is a book about Canadian public policy, not about the world. The world, however, is so much with us that it would be misleading not to indicate my views on the major international affairs that are the context of our domestic policies. Since this is not the main field of my experience, however, I shall only briefly summarise those views. The suggestions I make are merely a few items towards an agenda for Canadian external affairs. They are, I hope, items of importance.

The Third World without capital

In the early post-war years Canada had a large part in initiating international effort for development in the poor nations emerging from colonial rule or tutelage. In the intervening four decades there has been much disruption but also, in many areas, more economic progress than is commonly appreciated. We have now muddled ourselves, however, into a perverse and highly dangerous situation.

Banks and other financial institutions of the rich world in the sixties and seventies saw the more apparently stable of the Third World countries as lucrative homes for the capital generated by affluence. Much of the investment was ill-informed, but in any event recession would have caused many bubbles to burst in the early eighties. As everyone knows, though many do not admit it, massive

debts are now far beyond the capacity of the poor nations to service. Financial collapse has been avoided, largely under the tutelage of the International Monetary Fund, but on terms that have gravely set back economic growth and social development in the Third World.

At the same time, unfortunately, official aid from the United States has been increasingly directed not to development but to the propping up of some existing governments. Private capital accumulation is larger than ever, but it has shifted from the United States to Japan, some European countries, Hong Kong.

Dramatically, the United States has become a debtor country. International capital no longer goes to the countries that most need it to supplement their own meagre resources for development. The net capital flow is sucked into rich North America, to finance our deficits.

This inversion of both economic rationality and social morality is accepted with much complacency. There are ready rationalizations. Corruption, factionalism, authoritarianism, have sullied the early sympathy with countries new to independence. Exploding populations have created despair about both raising living standards and arresting environmental degradation. Violence and famine in some of the poor countries have become endemic without coming home to the rich. Perhaps above all, the fear of the fifties, that conflict rooted in the Third World would give rise to nuclear war, has faded. We rush emergency aid to lessen the disasters of drought and flood and earthquake, but essentially we have become most of the time complacent about most of the world's poverty.

Yet, other objections to it apart, complacency cannot be secure. Great as has been the disappointment to the rising expectations with which the new nations began, there are still rising hopes and, among the increasingly educated elites of the Third World, rising ambitions. Our technologies are constantly making more people aware of the wealth of others. The sense of injustice is palpable, and frustration increasingly capable of being vented in disruption.

A Canadian who has been much involved in the Third World, Maurice Strong, has stated the reality:

> The persistence of dire poverty at a time when the wealth and the means to eradicate it clearly exist is without question the greater single failure of our civilized life and the greatest threat to the future security and well-being of our global community. The several hundreds of millions of people who live desperate and marginalized lives in the slums of our global village cannot be expected to cooperate in maintaining the security and stability of a system which denies them even a modest participation in the benefits it produces. And the same technological capacities which

> helped to produce those benefits give those who are desperate and alienated new levers to disrupt and to terrorize our societies. (*Policy Options*, vol. 8, no. 6, July 1987; pp. 4-5)

It may be added that, as we become more conscious of the severity of environmental degradation, we must also recognise the necessity of cooperation extending far beyond the rich nations. Interdependence in protecting and improving the environment is likely to become more widely important even than interdependence through trade.

In short, we cannot be content to go on muddling through in our relations with the poor countries. We owe it to ourselves, as well as to Africans and Asians and South Americans, to lessen the disparities of a small, crowded world. We have got ourselves into an international financial system that is perilous enough for the developed countries, but to refashion it is not enough; the need of us all, rich as well as poor, is an economic order that facilitates investments in sustainable development everywhere.

There is little that Canada alone can do about it. At the end of the war, and for a decade or so afterwards, skilled government and diplomacy took advantage of highly unusual circumstances to make us a principal power in world councils. The circumstances, at least, will not recur. It is all the more important that we make the most of the influence we can have and for that purpose identify clearly the courses we can pursue and promote. The rest of this chapter offers a few illustrative suggestions.

Sustainable development

The Brundtland Commission of the United Nations articulated in 1987 the concept that is central to the six billion people who will live on this planet by the end of the century—which is almost four times our number at the beginning of the century.

The concept is, of course, "sustainable development": that the six billion must feed and clothe and house themselves, to far higher standards than many of them now have, and pursue their pleasures, while using the resources of the planet in ways that will sustain the resources for the use of the generations that follow them.

The concept is simple but revolutionary. It calls for large changes in the organization and decision-making of all levels of government, up to a degree of international governance through the UN. It calls for changes in the practices of farmers and fishermen and loggers. It calls for a new regulatory system controlling industrial, urban and residential development, the use of water and the disposal of effluents

and waste products. It calls for different methods of taxing industry. It calls for changes in the lifestyles of all of us.

To put the point in its most general form, sustainable development requires that all decisions take account of what economists would call "externalities"—effects that are outside the concerns of the particular decision-maker, whether governmental or business or personal. It requires the application of criteria considerably different from those of conventional economic wisdom and standard business accounting.

Geography and climate have made Canadians particularly profligate users and exporters of natural resources. Some of the adjustments to sustainable development will be especially difficult for us. They will, for example, make it inconceivable that a government seeking re-election should at the same time declare its devotion to environmental concerns and seek support by committing billions of dollars to producing oil that, on any rational assessment, would for the time being be better left under land and sea.

Internally, the task is to re-arrange our affairs so that we pollute much less and conserve much more. Internationally, it is our interest to be in the forefront of efforts to establish effective conventions to prevent ocean pollution, to conserve fish stocks, to control dangerous emissions into the atmosphere, to eliminate or control toxic materials, to regulate waste disposal, to maintain soil fertility, to regenerate forests.

There is, however, a danger in all this. The new interest of the rich nations in making development sustainable could operate in practice as a diversion of effort from the developments that are urgent for the poor nations. This is the aspect of policy to which Canada is fitted to make an important contribution, both because of the nature of our experience and because of our position as a rich country that is not a major industrial power. As a raw materials producer whose economy has more in common with the less developed countries than do the intensely industrialised countries, our interests and motives are less suspect than theirs in the Third World.

There are obvious implications for policy. One relates to our professed devotion to free trade. The surviving protectionism of the rich countries applies less to their trade with each other than to the exports of the Third World. Our tariffs and our non-tariff barriers chiefly restrict the trade of the poor countries. The cost that we thereby collectively inflict on them, by this distortion of the market economy we preach, probably exceeds the value of the aid for which we take credit.

Canada is not a particularly bad offender in this respect, but nor do we have great virtue to proclaim. We could be setting a better example by abandoning our non-tariff protectionism, and we would

then be better placed to take a strong part in international negotiations, through the GATT, to reduce protectionism against the Third World.

One of the further reasons why the poor nations are poor is that our present economic structure makes the terms of trade unfavourable to them. Manufacturing industries can generally vary their output promptly in response to fluctuations in demand; their prices are relatively maintained—indeed, thanks to all the elements of monopolistic power in contemporary markets and industries, well maintained. Primary production, other than the mining of diamonds and a few other highly monopolised materials, does not enjoy similar market power. Prices are much more volatile.

The developed countries have found ways to compensate their own farmers for lack of market power. Hence all the price fixing and agricultural subsidy schemes of which economists so greatly disapprove—and which, indeed, are often perverse in their effects. In the forms that political pressures tend to give to them, they may lessen the poverty of small farmers by an overstimulation of production that creates fortunes for large farmers.

However, such criticism of agricultural supports in the developed world in no way alters the fact of market injustice to the primary producers of the Third World. They do not have the political power to counter their market weakness. The various attempts to operate commodity agreements for primary products exported mainly from the poorer countries have had little success. That is not, however, because it is beyond human ingenuity to devise ways of making the prices of such products less volatile and, on average, higher. That would be a more effective way of doing justice than can be secured at equivalent cost by many development projects of the kind that have been undertaken. The requirement is simply political will in the rich countries, based on recognition that their own long-term interests will be advanced by greater justice for the Third World. Canada is well placed to play a leading role in securing this recognition and trying to base international action on it.

Small is effective

There is, fortunately, an area of policy where we do not have to wait to secure international agreement. We can act on our own.

Many kinds of development in the Third World, far from impairing the environment, help to maintain it for long-term use. They are, for the most part, small projects. They improve, for example, the productivity of subsistence farming, rather than the mining away of fertile soil by mechanised commercial operations. They may provide

clean water and sanitation, to the benefit not only of health but also of long-term soil quality.

Several rules for the success of such projects can be identified. They must respond in large part to the felt needs of the community, though this does not rule out planning also for wants that will materialise with development. They must be capable of being run by local people; outsiders may contribute for a training period, but not indefinitely. They must use sustainable technology, in the sense that the equipment does not require maintenance services that are specialised and remote.

Canada already has a comparatively good record in what is often morally summarised as helping people to help themselves. But what is being done is minute in relation to the needs. My plea is for a more comprehensive Canadian effort, not of foreign aid in the abstract but particularly of community-involved, mostly small-scale projects.

In much of the Third World priority should be given to rural projects, but a response to growing urbanization is also needed. Shanty towns can be made less miserable by better water and sanitation. Materials for improved housing can be provided. Everywhere through the Third World, clinics and schools can be built; teachers and extension workers, mechanics and paramedics can be trained. Wherever the culture permits, advice and supplies for contraception should be an important component of the extension of health services.

All of this is work that is mostly better done through non-governmental organizations rather than by civil servants. The field is ideal for privatization, in the sense of contracting-out. In part the requirement is a higher gearing of government funding to the donations that non-governmental organizations collect, but there is also scope for contracts to plan and co-ordinate particular types of projects, or groups of projects in particular areas.

This is not a program that involves the sudden throwing of vast sums of money at a problem in the manner of election promises. It is a policy that could and should gradually build into a national effort in which a good many Canadians, young and old, might spend a satisfying part of their lives. It is the most important contribution that the individuals of a rich nation can make to the betterment of the countries whose standards and stability will increasingly determine what comfort we can enjoy in our own territory.

True multinationals

We would, however, be turning our backs to that world if we concentrated our concerns on those situations in which small is as

effective as beautiful. The big organizations that have grown so much in scale and numbers during our lifetimes are not going to melt down.

In recent decades the international economy has been reshaped less by governments than by multinational corporations. I will later be criticising what I think to be the exaggerated role that we have given to corporate structures as such, and making suggestions that would diminish their power and particularly their tendency to spread, by conglomeration, over numerous sections of the economy. But corporations there will continue to be, and it is appropriate that many of the big ones should be multinational.

Many multinationals bring to Third World countries production, employment and export markets that local enterprise could develop only many years later, if at all. They often play a constructive role in transferring technologies to developing countries, upgrading workforce skill, training managers, raising standards in many ways that stimulate the growth of indigenous enterprises. The other side of the coin is that multinationals are often insensitive to the mores of countries they enter, heedless of disruptive social and environmental consequences of their operations. Workforces are sometimes exploited, small governments bullied. The power of multinationals can enable them to cheat the taxpayers of all countries, including those from which they originate.

Both the positive and the negative effects of corporate multinationalism vary greatly from case to case and country to country. There is no other country of any size in which multinationals are responsible for as large a proportion of economic activity as they are in Canada, and it is now academic to speculate about how different this country would be if we had consistently followed more nationalistic policies. There is little doubt that in some periods our GNP would have grown more slowly. On the other hand, we would probably now have a more diversified economy and it might well be stronger in the sense of having more industries of world-class efficiency, creating more employment income for Canadians. My hunch is that we would have, by this time, a better society with a healthier politics and an economy better serving our needs if the Canadian business community were more indigenous.

Such speculation is, however, of slight practical significance. There are no ratchets with which we could now quietly unwind most of the external ownership of our corporations. That could be greatly reduced only by using sledgehammers which would unacceptably disrupt the economic mechanism. Whether it is for better or for worse than what might have been, we are now married in long-term contract to a system of multinational corporations. And, whatever we feel about our Canadian experience, we must recognise that, internationally, multinationals have changed a great deal since they

became a subject of widespread concern here. There are many more of them, and they are no longer predominantly either American or very large. Partly for these reasons, and partly because both the old and the new ones are more sophisticated, multinationals are now in much better repute than they were twenty years ago.

The policy objective now should be to induce them to be truly international. This makes sense for the world and, since it is especially significant for Canada, is a policy in which we naturally can and should be leaders. My proposal is that multinationals should pay an international tax to the United Nations. Far from being a romantic idea, this could be made attractive to both businesses and governments.

The attraction for business would be undertakings by each member government of the UN that the total tax levied on a multinational in its jurisdiction would not exceed the tax that it would pay, under the country's legislation, if it were a purely national corporation of that country. The part of the UN tax attributable to a multinational's operations in a particular country would thus be deducted from the taxes it would otherwise pay if it were treated as a national.

This guarantee of national tax treatment would free multinationals from the fear that some future nationalistic government, if not the existing government, will make them the object of discriminatory taxes more severe than those levied on other businesses in the country. Thus, far from having reason to object to a UN tax, the business community should welcome it as an assurance of the "level playing field" that it claims from governments.

For governments, the attraction of a UN tax is that it would reduce the contributions they now make to the UN out of the taxes that they themselves impose directly on their citizens. Admittedly, the difference is largely cosmetic; but taxation is an activity in which cosmetics matter to the politicians of countries with largely private enterprise economies.

A tax on multinationals would have no direct application to fully socialist economies. They would be affected to the degree to which the tax increased the UN's revenue from the rest of the world. If the increase was significant, as is desirable, the socialist countries would be required to make a matching increase in their UN contributions. It would be difficult, however, for them to object.

There would, as always, be problems of definition. The unit liable to tax should be a corporation together with subsidiaries and affiliates in which it is the largest shareholder. A careful definition might be needed in order to bring into the net, as is desirable, partnerships of the kind that operate in services such as accounting and consulting.

A multinational in the broadest sense is any business unit, as just defined, that conducts operations (as distinct from merely making sales) in more than one country. For tax purposes, a somewhat more limited definition would be desirable: for example, a business unit could be said to be significantly multinational if less than 50 percent of its total revenue derives from operations in any one country. In other words, there are operations in at least three countries; and a company with one large operation and a string of very minor ones in other countries would not be given an artificial character as a multinational.

Business taxation is commonly an income tax on the net profits of the business. In a later chapter I shall make the case against this. The ideal system of business taxation would be unrelated to income. Instead, tax would be based on the materials that the business uses, including what economists call "externalities" such as the demands that the business imposes on public infrastructure and any environmental degradation that results from the operations of the business. But taxation on such criteria is unexplored territory and to try to deal with its complexities in introducing a UN tax would be, to say the least, premature.

The nearest approximation that would be practicable would be a simple sales tax. That is to say, the company (including subsidiaries and affiliates) would pay to the UN a small percentage of its total revenues. It would not be too difficult to make an accounting allocation of this tax among the company's operations in different countries, in order to determine the tax to be offset in each case against national taxation.

It must be recognised that the resulting net revenue after tax could occasionally be negative. A low rate of UN sales tax would not save some marginal operations from red ink. National governments would, of course, have to be left alone to determine what they would do in such cases. They might subsidise some troubled businesses. Alternatively, they might decide to let the market work as it is supposed to do, in the hope that another entrepreneur would step in, and, with lower capital charges, run the business successfully.

The details of a UN tax for multinationals would require much refinement of the idea sketched here. My concern is that it should be recognised as an idea whose time is coming. It could not be seriously advocated for the past twenty years or so, while the UN was in low repute, and particularly during the Reagan years in Washington. Recent changes in the temper of world politics, however, create an opportunity that should be recognised and taken. Canada has a particularly strong interest in pressing for true multinationalism.

The primary benefit of a UN tax is, of course, that it would strengthen the United Nations organization and its agencies. The UN would have more assured resources. It would have more ability to

respond to its real constituency, majority world opinion, and from that base exercise leadership of its member states. It might become far more influential not only in the resolution of conflicts and the relief of disasters but in the development of positive international policies to protect the environment and to steer economic policies to fairer, sustainable development. A concerted war on poverty would become more possible. We might begin to move a little towards the limited international governance without which the global village will become an increasingly uncertain habitat for us all.

Most multinational corporations began as extensions of sectoral interests of their country of origin. Some have already moved towards an international character. They have seen the benefits of providing distinctive mandates for their subsidiaries, recruited local management and even given it appreciable decision-making authority. At their best, they have developed real sensitivity to the different interests and viewpoints of some at least of the countries where they operate.

The UN tax would not work miraculous changes in corporate behaviour, but it would strengthen the hands of those executives who wish to develop a sense of international responsibility in their corporations. The agreements linking the UN and national taxes would give multinationals a more secure status, and security usually encourages responsibility. The fundamental character of taxes is that, as Oliver Wendell Holmes said, they are what we pay for civilized society, and in the jungle of the world economy an international tax would be at least a small civilizing force.

Cooler money

A UN tax on the revenues of multinationals, in conjunction with the assurance of national treatment in total taxation, would in itself help a little to lessen the instability of the international financial system. There would be less incentive for such corporations to join in the rush to move surplus funds around the world in constant search for the highest returns, after tax and exchange-rate fluctuations, on short-term investments. But most of the enormous supply of hot money would be unaffected. It would continue to be many times greater than international trade as the source of foreign exchange transactions.

An open economy such as Canada's requires for its prosperity exchange rates related in a stable and predictable way to the comparative power of currencies to purchase goods that are traded internationally. No combination of private decision-making and public policy will maximize our employment and productivity if we have to live in the gambling casino that the international monetary system has become. Affluence and inequality have generated vast

monetary surpluses which, with instantaneous communications, can be moved among the world's volatile markets at will. The symbol, paper money, has become a commodity in itself, its role as a store of value dwarfing its primary purpose as the means to exchange things we use.

The central banks of the principal countries have so far succeeded in keeping the casino in some sort of order. Most notably by the prompt action they took to correct the panic of October 1987, they have saved the real economy from the thorough disruption that paper excesses continually threaten. The achievement is, however, negative. We do not have a world economy producing the development that its poor people should and could have. And the achievement is uncertain. Even the deft hands of the central bankers are increasingly hard put to it to keep the game going.

Canada must be in the forefront of concern to establish a less volatile financial order. The central requirement is to restore authority to the postwar Bretton Woods system that collapsed in 1971. Admittedly, a return to fixed exchange rates is not practicable in the foreseeable future. The immediate need is to increase further the resources of the International Monetary Fund. With that, drawing rights on the Fund can begin to be effective as an international reserve currency and it would become conceivable to move towards an international equivalent of the European Currency Unit as a means of bringing gradualness to movements of exchange rates. Such developments will not be quick, however. Two more direct ways of enhancing the authority of the IMF require consideration.

The agency has hitherto been firm in compelling poor countries to hew to the conventional economic virtues as a condition of its lending to cover deficits in their balances of payments. In some cases it has gone too far, at heavy cost—as was noted earlier—to the people least able to bear it. Such heavy-handedness does not remove the need for the IMF's policeman role. It could be made more effective and acceptable, however, if there were some symmetrical discipline on rich countries.

This could be achieved by reintroducing the rejected proposal made by Lord Keynes in the original Bretton Woods discussions. Some countries sustain surpluses in the balances of payments by sterilizing them in foreign exchange reserves rather than allowing them to expand the domestic monetary supply and so encourage increased imports. Keynes proposed that such balances should incur a charge to the IMF—in effect, a negative interest rate. Such a tool would do much to make the agency more effective. At the time of the Bretton Woods meeting, it was a weapon that seemed to be aimed only at the United States, and no one else had much bargaining power. Now the U.S. is in international deficit and the countries with surpluses are much more

diverse. It is possible that some equivalent of the Keynes proposal, if not its original form, would now be negotiable.

There remains the most urgent measure: some direct attack on the volatility of capital funds. Its consequences are greatly exacerbated by the policy of some countries—the United States conspicuously, and Canada by imitation—of maintaining high interest rates as a compensation, in their internal economic management, for large budget deficits. It is a poor policy domestically, and its destructive international effect is to draw to the rich countries capital that could more usefully be attracted to the development of poor countries.

A strong IMF would have disciplinary power in such situations. It might, for example, have authority to fix (after consultation, of course) a maximum interest rate for a country incurring substantial, persistent deficits in its international payments and its central government's budget. The relevant rate of interest would be the average yield to maturity of marketable government obligations, and it could best be expressed in "real" terms, after allowance for inflation.

There will be objections to such a measure as an infringement of sovereignty. It is less so than the terms that the IMF has forced on poor nations. Any international order lessens national sovereignty; the requirement for a fair and effective system is that it do so in an even-handed way. Such system as there is at present does not meet that requirement, and Canada's interest in an effective system is so strong that we should be capable of accepting the need for reform.

One would hope, of course, that the IMF would need to exercise such authority only occasionally and flexibly; but even if it became a prolonged pressure on the balance of monetary and fiscal policies, it would be a mild measure compared with the regulatory control of capital movements that we will be driven to attempt if the speculative activity of the casino continues unchecked much longer.

A further merit of considering proposals such as these is that they would nurture a climate in which it would be much easier to avoid a collapse of lenders' confidence while recognising that much of the present indebtedness of the poor countries will have to be eliminated, either by writing down the principal or—generally speaking, better—by forgiving much of the interest. The stronger the grounds for believing that a more stable financial system is emerging, the easier it will be to save face all round while effectively lifting burdens that some debtors will never be able to carry. In this matter, Canada has already shown more wisdom than some. The challenge is to extend that quality to the construction of a workable financial order for the future.

Keeping the peace

Improving the world economy is of small importance compared with avoiding war between the major powers. That is the greatest concern for all mankind, but there is not much that Canadians can do about it. We have nothing to contribute to the overblown weapons of deterrence. Indeed, our closest association with them, through our singular association with the United States in Norad, has always been an embarrassment. Even in the dangerous times of the fifties and sixties, we should have insisted that the northern frontier of the Atlantic community, just as much as the eastern, was the concern of the NATO alliance. The parallel to American and Canadian forces in Europe should have been at least a token involvement of European forces in the Canadian and Alaskan north.

Now our role in Europe is little more than tokenism, or perhaps an illustration of the longevity of vested military interest. NATO was a necessary alliance, excellently designed and reasonably well implemented. Canadians can properly be proud of our role in its initiation and, for many years, its conduct. But a Russian attack on western Europe is now almost inconceivable. That in no way creates a case for unilateral disarmament. We can be complacent only if the fastest practicable reduction, in military forces of all kinds, proceeds in safely monitored balance by East and West. But whatever the actual pace of arms reduction, it is difficult to see that the presence or absence of Canadian forces in Europe makes any difference.

Our forces in Canada can play various useful roles of a subsidiary nature. They can help to police our waters in protection of the fishery. They can play a major part in search and rescue operations. They can provide a stiffening of the resources available to deal with disasters of many kinds. Their more military role is to provide a firm Canadian presence in the northern areas over which we claim sovereignty. For that, they need sophisticated detection and communication apparatus. I cannot see that they need a fleet of nuclear-powered attack submarines.

There is, however, a major military purpose for which Canada does need more military equipment in the hands of trained and highly mobile forces. It is peacekeeping under the auspices of the United Nations. The relaxation of tensions between the super-powers in no way lessens the possibilities of local conflicts; indeed, it could make them more frequent and more difficult to resolve. Confidence that UN peacekeeping forces will be available may therefore be especially important as an encouragement to Third World countries to follow the big powers in disarmament, reducing the appalling proportion of their scarce revenues now devoted to buying relatively sophisticated weaponry.

Canada in the 1960s was a leader in establishing the peacekeeping role of the UN. We have since neglected our own capability to contribute appropriate forces. The kinds of forces required can readily do double duty by providing the manpower needed for enhanced surveillance of our north. The defence policy suggested here is therefore not one of retrenchment from the present level, low by international standards, of our defence spending. On the contrary, we are one of the few countries that may sensibly spend more on its military forces. But in the big league of mutual deterrence, all we can usefully offer is what our geography and technology enable us to contribute to the detection and safeguarding processes that will lessen the risk of disaster by accident. Otherwise, our participation in making the world more secure lies in the quality of the forces we can provide for peacekeeping through the United Nations.

Living in friendship, not sin

Canadian diplomacy centres on our special relationship with the United States. It has to be special. We share most of the North American continent. Our economies are closely intertwined. Our cultures are not identical but they have much in common. We can live comfortably beside our long border only with bilateral arrangements particular to the two countries: arrangements about boundary waters, about quarantine regulations, about administrative procedures of many kinds.

Our partnership, however, is with a giant. The disparity in wealth and power creates two problems. The first is how we secure fair treatment in our direct dealings with the United States. The giant is of a friendly disposition but has many concerns. We are far less important to the United States than the United States is to us. It is easy for Americans to take, for other reasons, actions that are not designed to hurt us but do so incidentally. Subsidized grain exports provide one of the more important and long-standing examples.

This difficulty is exacerbated by the nature of the American political system. The separation of powers makes it even easier than in most systems for government action to express a sectoral rather than general interest. Hence, while we have litt'e to fear from any conscious collective will of Americans to assert their interests over those of Canadians, we are in practice exposed to business and regional interests that have no such compunction. American policies on acid rain and for the protection of the lumber industry are recent examples.

The second problem is whether, given the closeness of our special relationship with one country so much more powerful than us, we can act as anything but an American satellite in our relations with other countries. We place our diplomats around the world, our politicians go

to international meetings and make their speeches, but does it all have any significance? Can we make any real difference?

The answer, I think, is that we can. But to do so requires us to follow, consistently, two rules. They stem from the nature of the leverage we have with the United States.

Essentially it is that Canada is the world's hostage to American good intentions. Canadians are more like Americans than any other people. Our governments have been as consistently accommodating to the United States, as supportive allies, as any except the kept regimes, the U.S. dependants. Canada is of pretty good repute in the world and a threat to no one. If the Americans could not get on well with us, with what independent country could they get on well? Who could trust them? If Canada were browbeaten by the United States, if disagreement resulted in American action that seriously hurt us, the world's sympathy would be overwhelmingly with Canada. The image everywhere would be of the ugly, imperialist American.

In other words, though Canada is much less directly important to the U.S. than the U.S. is to us, good relations with Canada are a major U.S. interest; they are the first test of American ability to have friends and influence among independent countries generally. This, properly used, is the lever that gives us bargaining power in dealing with the United States.

Like most weapons of the kind, it can be destroyed by over-use or atrophied by non-use. If we screamed loudly every time we feared minor ills, the world would soon join Americans in losing patience with us. Quiet diplomacy has been and remains the best way for Canadian and American governments to conduct most of their business. Intelligent policy requires us to be sparing in our choices of open disagreements. On the other hand, if we seem prepared to swallow almost anything, we lose international respect; dismissed to satellite status, we lose our leverage.

In recent years we have avoided the first error, of protesting too much, but have come perilously close to the second.

In doing so, we have neglected the second of the two rules for Canadian diplomacy that derive from the nature of our relationship with the United States. It is that, when you are much smaller than the other fellow, it is good to have other people along too.

We are bound to have one-to-one relations with the Americans on the many matters that geography makes of direct concern to the two of us alone. But on matters of broader international concern, we should always seek to involve other partners rather than seek special deals. This is the rule that has been flagrantly and foolishly set aside in the recent trade agreement.

The agreement has been sold under the noble label of free trade. In truth the motive for it was not the gradual elimination of the

remaining quite low tariffs levied on a few of our exports to the United States. That is welcome but it is not what is important about the agreement. Our original motive for seeking it so eagerly was the fear that the United States, in a protectionist mood, would greatly increase the severity of the devices other than normal tariffs by which it restricts imports. We sought the bilateral deal in order that, however much the trade of other countries was hurt by U.S. protectionism, we would have a privileged exemption from it.

In that objective, the negotiations failed. The agreement sets up a special disputes settlement mechanism for the application of U.S. law to Canadian products, but the changes from the present mechanism are little more than cosmetic. There is no assurance that Canadian access to the American market will be any more secure than it was before the deal. That, in my view, is a blessing. It is better for us to belong to the human race outside the United States than to gain cooption into the American economy.

However, the collapse of the original objective, whether considered to be for good or for ill, did not long arrest the momentum of the negotiations because a second objective took over. The then battered government had snatched at a trade deal as its central policy. Much of our largely Americanised big-business community saw the opportunity. Some corporations had a direct interest in the possibilities of large markets and new investments south of the border. Most had an ideological interest in making the conditions of doing business in Canada more like those in the United States. The result was that a government desperate for an agreement ceded, in exchange for negligible advantages to Canada, special conditions of great advantage to American investors and service industries in Canada and abandoned national considerations in favour of a continentalisation of the energy industry.

The outcome is sad, though I do not think it is as disastrous as the opposition parties, in the hyperbole of the 1988 election campaign, predicted. Indeed, I shall be surprised if the agreement lasts for many years. The exaggerated claims of its proponents will soon be followed by widespread disillusionment. It will be the hurts, not the benefits, that soon hold public attention. The further negotiations, which on the issues of potentially greatest gain or loss to Canada are all that the agreement provides for, are most unlikely to go anywhere. Canada has already put in almost all its negotiating chips. It has nothing more to give to gain from the United States what it could not get in the original negotiations. It is entirely possible that, before the next election, the present government will have either to abrogate the agreement or go down to defeat. In either event, or even if the agreement survives, the difference it will in practice make in Canada will be much less than its champion hope or its opponents fear.

The general lesson, however, is clear. It is not a sensible Canadian policy to try to establish a common-law relationship with the United States. Americans will not take us that way. As long as we do not want to enter into marriage, our sentiment and our interest are to be best friends, on terms that allow for many other friendships too. That has generally been the basis of Canada's policy in external relations, and the wisdom of it remains.

6.

A Fuller Economy

This chapter makes two main suggestions for economic policy. One is a procedure for securing better coordination of fiscal and monetary policies directed to full employment without inflation. This needs to be supported, I suggest, by an incomes policy of a stand-by character.

In this complex field it would be unrealistic to suggest that a few measures, however useful, are panaceas. Chapter seven will suggest a major change in corporation law and taxation, which I think would do much to strengthen the innovation, flexibility and competitiveness of a market economy, and also make brief references to some of the other determinants of our economy's performance.

Work

Much economic analysis concentrates on efficiency in the utilisation of resources in response to market demand. It is an invaluable tool provided that it is recognised to be about means, not ends. Economic welfare is more than a maximum of goods and services traded through markets. There are other criteria for public policy. One, referred to in the previous chapter, is sustainability: on a crowded planet, the public interest must take account of a range of environmental effects external to the producing enterprise. A second, which will be discussed later, is

fairness in the distribution of wealth and income, which determines the extent to which production responding to market demand serves the welfare of people. A third criterion, which is my concern at this point, is the quantity and quality of work.

From our teens or early twenties to our sixties, a job is for most of us—now women as well as men—the means of living, the way we establish our claims to current consumption and our entitlement to go on consuming in retirement. But it is not only that. It is the main basis of our place in the community, of our sense of self-respect and of belonging.

There are, of course, exceptions. Parenting is often for a period the main purpose of one of the parents. Some spouses are content to keep house. Many people find their place in the community chiefly through voluntary organizations. For some, indeed, voluntary work is the consolation for a job that gives little satisfaction. There are not, however, many satisfied voluntary workers among the long-term unemployed.

The exceptions do not touch the main point. The greatest marvels of productivity do not make a good society if some people are without work. The most generous of income maintenance programs do not make unemployment acceptable. The provision of enough jobs (jobs in the broad sense, including self-employment) is essential.

It must be noted that some economic theory denies the significance of this criterion by insisting that markets always work, that demand and supply are equated, and that therefore the unemployed are people without work because they do not want it. It is a theory that can be sustained only by contorting the meaning of "want", though it apparently comforts the practitioners of policies that depress economic activity.

The more defensible challenge to the criterion of full employment arises from the fear of technological change. Its rapid pace may greatly increase productivity in manufacturing and processing and change the nature of the work required: a few highly skilled technicians and semi-skilled machine watchers may replace much larger numbers both of unskilled workers and of those with older skills. Thorough pessimists see us caught in a pincer. On one side, there are limits to growth, both because we are affluent enough for many wants to be satisfied and because of the degradation of our environmental resources. On the other side, technology is rapidly reducing the labour required for sustainable and saleable production.

Examples of the displacement of workers by technological change are frequent and dramatic. But they are not grounds for despair. What will be said in the next few paragraphs is obvious, but it has to be said against the contemporary mood that has—temporarily, I am

sure—lost faith in full employment as the necessity of a fair and affluent society.

Contemporary affluence is impressive, but it leaves us with a multitude of unmet needs. Many are for services that make negligible demands on physical resources. Some are friendly to the environment rather than damaging. Many are activities that remain labour-intensive.

We need a large extension of the caring services. Day care for infants is the currently most fashionable. Home care services—for the disabled, the infirm, the family in temporary trouble—are equally in need of development. Needed improvements in education and health services call for more workers. In agriculture and in forestry it is being discovered that we have gone too far in replacing people by equipment and chemicals. Both conservation and nutrition call for arresting, and even reversing, the trend that has run so strongly for fifty years.

The requirements of urban areas are conspicuous. There is much work to be done to provide cleaner water and better sanitation; to make cities efficient in their transportation and adequate in their opportunities for exercise and recreation; to police them more effectively and understandingly; above all, to create more and better house room for the hundreds of thousands of people who are now overcrowded, as well as for the homeless.

It has to be recognised that these are mostly collective needs, requiring public financing either wholly or partially. The speed at which they are met depends on acceptable levels of taxation, tomorrow to service public debt if not today. That does not make it sensible, however, to claim that we must endure unemployment rather than satisfy peoples' needs. Those who are affluent enough to want only to have more leisure to enjoy the possessions they have, rather than add to them, are conspicuous rather than numerous. Most Canadians are far from satiety. There remain many and diverse needs for the private sector of the economy to meet, and thereby provide employment that will more than offset the present rate of increase in productivity.

And if this should cease to be true, if ever we really do run out of needs to match our capacity to satisfy them, there is nothing sacred about 40 hours a week, 48 weeks a year, as normal employment. A democratic affluent society must surely reduce the work it requires per person rather than deprive ten or twenty percent of its members of the place in society that comes with employment.

Full employment is most commonly defined by economists as equality between the number of job vacancies and the number of people seeking work. A more useful definition, I think, would point more clearly to the nature of the action required to minimise "frictional" unemployment. It might be that the number of jobs should equal the number of people wanting jobs comparable to those of their

peers in qualifications for work. However, precision about the standard becomes important only as we approach it. The present need is to be clear about the nature of the objective. If there is unemployment, the fault is not in the stars but in our economy. The problem is to learn, or largely to re-learn, how to operate a fuller economy.

Of course, our concern should not be only for the quantity of employment but also for its quality. The ideal mix of jobs would enable everyone to do work that fully exercises his or her capabilities. We cannot expect more than rough approximations to that, but it underlies the importance of the investments in developing our human resources to which I shall refer in a later chapter.

So does the necessity of flexibility. Full employment is not a set of entitlements to existing jobs. It is, on the contrary, a condition that calls for running in order to stand still. The workforce must be adaptable to new techniques and changed jobs.

The quality of employment does not relate only to the nature of the work. It also depends largely on how the enterprise is managed. While it is correct as well as conventional to emphasize that economic efficiency calls for hard-nosed competitiveness towards enterprises that are rivals for the customers' dollars, it does not follow that hard noses produce most efficiency within the enterprise. An increasingly educated workforce, using more elaborate technologies, is one in which discipline is diminishingly effective. Most people work harder, are more enterprising, care more about the efficiency of their work, if their immediate environment is supportive rather than harsh, if their cooperation is confidently sought rather than their obedience brusquely required.

Many firms in Japan and some European countries practice a more participatory style of management than is yet usual in North America. Where the competitive advantage thereby lies has been demonstrated by the greater reliability of imported automobiles, until U.S. companies began to flatter by imitation.

Hitherto, growth in the size of plants and of companies has combined with production-line methods and with the ever more arcane nature of business manoeuvres to weaken many workers' sense of the relation between what they do and the value of the final products of the work. Fortunately a new trend is now evident. The Monsanto chemical company, to take one example, has recently demonstrated large gains in productivity by giving workers the information and the encouragement to use their brains in the operation of its plants. Undoubtedly, efficiency can often be advanced by more participatory management, by arranging jobs to be more interesting and more varied, by involving the workforce in production decisions. This would often be reinforced by some forms of profit-sharing. In the longer run,

it is reasonable to look to the gradual evolution of cooperative forms of industrial organization in place of some of the existing hierarchical structures of ownership and management. Government cannot force such changes. It can encourage them by example, by information and in some cases by incentives.

Money and debt

The price of full employment is eternal vigilance against the risks of inflation. The main risk, for an economy such as Canada's, is not what some economic theories presume: that monetary demand will get out of hand and pull prices up. It is that the strong bargaining power of some sectors of the economy will raise costs and so push prices up.

Nevertheless, the macro-economic management of money must be discussed first, if only because there is so much concern about budget deficits and a mounting national debt.

"National debt" is, of course, a misnomer that creates much misunderstanding. A nation can be in debt, in the same sense as individuals are, only to foreigners. The federal government's debt is an obligation to move money from pocket to pocket within the nation. The government must tax Canadians in general in order to pay interest to those Canadians who own bonds—either directly or, for the most part, through pension funds and insurance policies. For such purposes, bonds are essential. If governments did not borrow, something equivalent to their bonds would have to be created.

In other words, national debt as such is not a monster that endangers us. It is closer to being a friendly household pet. But pets lose their charm if over-feeding makes them too fat.

The basic rule for probity in government financing is easy to state. It is that government should not spend more or tax less than is necessary to equate its current revenues and expenditures at the level the taxes and programs will produce if the economy operates at full employment and prices are stable. This rule results, of course, in a budget surplus if the economy is fully employed and prices are tending to rise. It produces a budget deficit if the economy is under-employed.

The principles of economic management for full employment do not suggest complacency about the financial situation that developed in Canada in the late seventies and early eighties. The objective then was not full employment. It was to wrestle down inflation, and to that end the government was prepared to—and did—bring about heavy unemployment. There are, of course, two means to such so-called cooling of the economy: fiscal policy and monetary policy. Cooling by fiscal policy calls for a budget surplus or, at least, a smaller deficit than would be appropriate to increase employment. Cooling by monetary policy makes credit less available and raises interest rates; its initial

impact falls particularly on durable consumer goods, construction and equipment.

The sharp difference between the two is, however, that a government cannot escape responsibility for raising taxes or cutting expenditure programs, whereas for monetary policy it can hide behind the Bank of Canada. The Trudeau government had no consistently strong fiscal policy against inflation. Large budget deficits doubled the national debt in only five years from 1978 to 1983. Inflation was in the end decelerated not by fiscal policy but, in small part, by the period of wage and price controls and, predominantly, by monetary policy.

Politicians have a number of reasons, in addition to the primary motive of lesser visibility, for preferring that the Bank of Canada do the job. They are all short-sighted reasons.

One is that a tight money policy calls in foreign aid to help to deal with another problem: a deficit in the external balance of payments. High interest rates attract foreign capital which, temporarily, offsets the external deficit and keeps up the exchange value of the Canadian dollar. The gain is, obviously, short-term. Servicing the foreign capital increases our future external deficit. The higher exchange rate reduces our exports and thereby not only increases unemployment but probably further worsens the future external deficit. If the foreign capital turns out to be volatile and soon departs, the consequent erraticism of the exchange rate further discourages Canadian business from risky ventures in export business or from production competitive with imports.

A tight fiscal policy, whether through tax increases or spending cuts, hurts a great many voters. So does a tight monetary policy, but not quite so many so directly. Again, however, the advantage is in the short run. Heavy borrowing and higher interest rates combine to increase the fixed charge on government revenues. By 1983, over 31 percent of revenue was required to pay interest, compared with 19 percent only five years earlier. A government that has once dug itself into a poor fiscal policy has increasing difficulty in getting onto firmer ground. The mounting fixed charge cramps its scope for fiscal manoeuvre, its ability either to cut taxes or to increase spending.

There is another, most serious consequence of relying too much on monetary instead of fiscal policy. The restrictionism of high interest rates falls particularly on those sectors of the economy in which dynamism is most important. Established businesses, and especially large corporations that finance modernisation and expansion largely from their own undistributed profits, are comparatively immune to variations in the availability of credit and the level of interest rates. Small businesses, and especially innovative ventures, are not. They are the chief victims of tight money.

An important prescription for a vigorous, flexible economy follows from this. When government needs to restrain inflation, the weight of its policies should lie with fiscal measures, spending less or taxing more, rather than monetary policy.

But how can this be achieved? Politicians are biased towards evasive reliance on monetary policy. And central bankers themselves are far from being a countervailing force.

A central bank requires complete flexibility, free of any government interference, in its day-to-day decisions. It must be able to provide its own kind of signal to financial markets by changes, sometimes sharp, in its Bank rate. It must be sure of discretion and secrecy for its foreign exchange transactions and for its buying and selling of government securities. It must have the authority of independence, as well as the assurance of secrecy, in the use of its powers of suasion on the commercial banks and other financial institutions.

Power may not always corrupt, but familiarity with it usually breeds fondness. Clearly the necessary autonomy of a central bank in its day-to-day operations should not mean that it has independent responsibility for the nature of the monetary policy it implements. That is far too central to our public affairs for the responsibility to lie, in a democracy, with anyone but the elected government. But central bankers have a sense of mission. It is their role to defend the currency, and they seem to have few understanding allies. Politicians, in particular, they understandably distrust.

Beleaguerment tends to make zealots. The speeches of some central bankers drive one to imagine that, when a million people are without work in the cause of fighting inflation, the bankers lie awake at night fretting because the number is not two million in the cause of rooting out inflation. The image is unfair, no doubt. The main problem is not to change the bankers. It is to stop the politicians from requiring too much of monetary policy in order that they need not put the government's own financial affairs in order.

The criterion that would have to be used, to limit extremes in monetary policy, is the rate of interest. That would not be unprecedented. In the past the rate of interest that could be charged by commercial banks was limited by legislation.

Today the criterion could not be the "nominal" rate of interest but the "real" rate after allowance for inflation. For clarity, this has to be defined fairly precisely. In theory, the allowance should be the anticipated future inflation. In practice, it would have to be the actual percentage increase in prices over, say, the previous twelve months. Also, given the complexity of contemporary financial institutions, the criterion could not be any particular commercial rate, and it should not be so dramatic as "the" rate fixed weekly by the Bank of Canada.

Perhaps the best definition would be the average yield to maturity of the marketable obligations of the federal government, adjusted for inflation. This is not, of course, a simple deduction of the rate of price increase from the nominal yield, because for all but short-term securities account has to be taken of the diminished real value of the loan capital when it is repaid. In round figures, if the assumed inflation rate is 5 percent every year, a ten-year bond with a 10 percent coupon produces a real return of a little under 4 percent a year. If the inflation rate is 4 percent, a 7 percent coupon on a ten-year bond gives a real rate of about 2.4 percent.

My suggestion is that we should establish an acceptable range for the rate of interest in this sense. In the days when there was no expectation of rapid price changes, the long-term interest rate was pretty stable; it was usually under 3 percent. A practicable range, for the "real" rate as defined in the previous paragraphs, would be 2 to 4 percent. My proposal is that this criterion should be embodied in legislation, but not—I emphasise—legislation of a regulatory kind. That would be too rigid. What is needed is a recognised warning system.

Alarm bells should not ring whenever the rate is outside the 2 to 4 percent range. The central bank needs flexibility to deal with temporary situations. A reasonable provision might be that if the rate of interest has been, on average, outside the acceptable range for a period of, say, six months, then the Minister of Finance and the Governor of the Bank of Canada should be required to appear promptly at a public hearing of the parliamentary finance committee. If they provided a joint and reasonable justification, that would be the end of the matter until the rate of interest was again outside the recognised range over much of a further six-month period.

The likeliest such justification would relate to interest rates in other countries. Whether we need to be as set as we have been on a rate higher than the U.S. rate is questionable, but certainly we cannot be immune from external influences.

If all or some members of the committee nevertheless found the explanation unsatisfactory, the committee's report would no doubt be debated in Parliament as well as publicly discussed. The discussion would be most important if the Governor made a good case for a high interest rate in the situation he faced but thereby in effect put pressure on the government to change its fiscal policy. The outcome would presumably be the resignation either of the Governor or of the Minister of Finance.

A government introducing such legislation would therefore have to be both confident about its fiscal situation and wise enough to see the merits of creating disciplines for future policy. The time for the proposal is not immediately at hand, but there is clear need for some

way of achieving its objective. Hence the importance of considering such ideas before they are immediately practicable. Moreover, a framework for evaluating the relative roles of fiscal and monetary policy does not have to be legislated in order to be used by independent commentators and become an influence on politicians. It would help public opinion to ensure a stronger pressure for policies promoting full employment without inflation and with a stronger economy.

Costs and incomes

Improvements in fiscal and monetary management make full employment possible. They will not make it sustainable unless there is general confidence in our ability to control costs fairly.

Full employment makes it easier for sectional interests to lever benefits for themselves. The strongest do it first, others follow, and catch-up becomes widespread and continuing. The process is usually thought of in terms of the wages of organized labour. In fact it is at its worst in sectors of the economy open to speculation, including urban land and buildings. It is also virulent in the form of price increases and bounding executive compensation among corporations facing only limited competition. It is true that the corporations with most market power to raise prices are generally not those serving consumers most directly, but their prices quickly become the costs of others and work their way through the system.

Defences against the strong exploiting their leverage and starting cost-push inflation must be firmly based in public opinion. The defences do not have to be absolute; we do now have most of the adjustment mechanisms needed to absorb gradual increases in prices without unfairness to the weak; the remaining deficiencies in these mechanisms would not be hard to correct. But in this, as in many social adjustments, gradualness is all. The wrestlers of inflation are entirely right in their belief that rapid and sustained rises in prices, which once established accelerate, must be prevented.

That is apparent to almost everyone. The policy problem is to make this awareness effective as a restraint on the strong who may hope to get so far ahead of the game that rising prices do not worry them.

For this purpose, various ingenious forms of incomes policy have been proposed. I am not convinced that any of them would be continuingly effective. The control of income increases would have to be tight if it was to work as an indirect mechanism for correspondingly controlling price increases. The system might be fairly simple when it was introduced but, as with our present tax system, increasing irritating complexities would probably be necessary to close loopholes. Even so, I doubt whether it could survive for any long period unless

supplemented by fairly comprehensive direct controls on prices. Those are not only very cumbersome administratively; if they are kept in place for long, they destroy the virtues of a market economy.

None of this means that we cannot have an incomes policy. It means that formal controls should be set up as a standby mechanism, to be brought into operation for a defined period if and when it is likely that there will otherwise be a substantial increase in the consumer price index.

With this stand-by mechanism in place, public opinion and reasonable government management should normally be sufficient to maintain full employment without inflation. This depends, of course, on a sense of social contract, a general confidence that the intent of government is to moderate old inequities and prevent new ones. If there is such confidence, it can be expected that the very existence of the standby mechanism will help to make the need for its use very infrequent, possibly limited to emergency situations that may be created by shocks in the world economy.

The credibility of the mechanism depends, however, on general understanding that a government need not fear unpopularity if it imposes controls when the need for them can be stated in commonsense terms. Public support will be given more readily if the legislation sets a maximum time limit for any one application of controls: three years might be a reasonable limit, with a presumption that in practice the aim would be a shorter period. The primary condition, however, is that there should be no strong sense of unfairness about the distribution of incomes when controls are begun.

This requires, first, a fair tax system. It requires confidence in a comprehensive, efficient structure of social services and income supports. It requires strong programs to enable people to adjust to economic changes—through training, mobility and job creation—so that the adjustments are social costs, not imposed unfairly on those who are unfortunate in being directly affected.

Such requirements will be discussed in the following chapters. A few points, however, are appropriate here.

Even the best of tax systems cannot adequately correct the grossest anomalies in wealth that arise from some of the operations of our economy. The worst cases are what might be called safe speculation: the vast capital gains accruing to people who buy up land and buildings, notably in undeveloped areas close to large cities. There ought to have been, and belatedly should be, extensive government programs of land banking, taking control of future use at prices based on existing use.

A second major anomaly arises from the contemporary paper entrepreneurship of corporate takeovers, hivings-off and amalgamations. Through these transactions some financiers and executives

make enormous capital gains while other staffs of the corporations concerned may have their careers suddenly disrupted and often some lose their jobs. The civilization of behaviour in this new jungle requires changes in company law. The major reform is discussed in the next section, and others will be suggested in conjunction with taxation.

A point of a very different kind arises from the right to strike in the public services. Collective bargaining in federal, provincial and municipal public services, which developed so rapidly only twenty years ago, was belated justice. Collective bargaining, however, does not involve a sacred right to strike; the final stage can be compulsory arbitration.

Strikes in the private sector are about sharing the proceeds of an enterprise, and there are economic sanctions on both sides. The company not only loses income during the strike but may, with a prolonged strike, suffer a permanent loss of markets. The workers not only give up current wages; if they press too hard, jobs may be permanently lost.

Strikes in the public sector are different not only because, generally speaking, they inconvenience the public more directly. That gives the union more bargaining power, though it can also result in more unpopularity. The more important factor, however, is that the employer does not have the ultimate sanction of closing the operation rather than pay too high wages. Governments can always pay, and the cost is spread relatively thinly over a large number of taxpayers.

I am not suggesting that great harm has already been done. Some classes of public servants have done no more than catch up from their previous situation without collective bargaining rights. But the past twenty years have been a period of unemployment and, for the most part, budget deficits. If we return to full employment and healthier public finances, there may be serious danger that some public service unions will be the leading force towards cost-push inflation, causing resentment and catch-up effort in the private sector and forcing government to impose controls as the alternative to abandoning full employment.

It would therefore be to the advantage of public servants, as well as the general interest, that their right to strike should give place to compulsory arbitration. To be acceptable, of course, arbitration would have to be in a framework ensuring independent interpretation of guidelines providing public service compensation fairly related to equivalent work in the private sector. But that is a small requirement for the sake of avoiding inflation in a fully employed economy.

Confidence in full employment is the key. The inherent weakness of the experiment in income and price controls undertaken by the Trudeau government was that it was begun only after that government had declared its willingness to view unemployment as the

supposed price of containing inflation. The bitter opposition of organised labour was thereby guaranteed. Strong unions cannot be expected to accept the limits beyond which the deployment of their full bargaining power hurts the community at large unless the society's commitment, and especially the government's commitment, is beyond doubt: the commitment, that is, to full employment, to fair taxation, to comprehensive social security. If we are confident in that commitment, Canada has only problems that can be solved; without it, the difficulties we have survived pale beside those that adjustment to a new world will press on us.

7.

Reviving the Market

Canada had an easy ride as a well-placed, resource-based economy. We are not so equipped for the role into which we must now fit, involving considerable reliance on technologically advanced activities. In this situation business is, appropriately, the sector of the community that talks most about the importance of competitiveness, efficiency, flexibility. And naturally, the talk emphasizes the restraints imposed by non-business forces: the feather-bedding of trade unions protecting redundant jobs; the limitations of labour supply resulting from unemployment insurance and minimum wage legislation; the rigidities imposed by regulation (though public opinion has of late much diminished complaints against the main body of regulations relating to health, safety and the environment); the weakening of incentives for risk-taking and the cramping of investment funds by taxation.

There are elements of justification for such complaints. There are faults to be corrected. But those are not the principal ways to make our economy more flexible and innovative. The major change required is within business. It is to put into the hands of shareholders, to whom it belongs, the money that big corporations at present retain. It is, in other words, to abolish the concept of corporate income, as distinct

from the income of people who own businesses. Therewith, we would stop taxing business as such.

The business corporation rests, of course, on the legal concept of limited liability, necessary in order to put capital together in the quantities required for the industrial revolution. And if the owners individually could not be held responsible for the business, then the corporation itself had to have some of the same legal rights and obligations as an individual: to own property, to make contracts and be held to them, to sue and be sued.

The great advantage for the active proprietors and managers was that they thus had a readier way to increase the capital in the business than to persuade people to put up new money; getting them to leave their profits in the company was easier.

In the beginning, when enterprises were still small, this was entirely reasonable. The trouble is, as so often, that when conditions changed the rules did not. The result has been the growth of large corporations that so dominate the economy, particularly a relatively small economy such as Canada's, that free enterprise in competitive markets has been largely destroyed. Eric Kierans and Walter Stewart have sharply analysed and vigorously denounced the process in a recent book*.

When there was no income taxation the financial dealings between a corporation and its shareholders were of no apparent interest to government. When incomes began to be taxed, however, it was clearly impossible to exempt some income simply because its owner left it in the treasuries of the corporations in which they owned shares. Either it had to be treated as personal income, taxed accordingly, or the corporation itself must be taxed. The second alternative, unfortunately, was chosen. No doubt the main reason was administrative simplicity, and anyway the difference between the alternatives was not very great as long as tax rates were low.

Its significance became apparent only after war had accustomed us to high tax rates, only partially relaxed afterwards. No politician could contemplate reducing the tax rate on corporations below that paid by fairly rich individuals. The incidental effect, however, was that government greatly encouraged the rise of the manager relative to the shareholder.

One consequence, of relatively minor economic significance but greatly damaging to the regard in which business is held by its workers and customers, was that the postwar years became the era when corporate extravagance was entrenched because "the

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* *Wrong End of the Rainbow: The Collapse of Free Enterprise in Canada.* By Eric Kierans and Walter Stewart. Toronto, Collins, 1988.

government's paying for half of it". The management of large corporations seemed determined to justify their complaint that high taxes cause inefficiency.

This did not mean, however, that they had to go on actually paying high taxes. In the Trudeau period particularly, the large corporations learned how not to pay taxes, with the compliance of a government that had rightly become worried about economic efficiency but did not know what to do about it. Rapid write-offs of capital investments; tax deferrals; all the tax expenditures and investment incentives; acquisitions of companies with losses to carry forward; freedom from tax on dividends received from the marketable securities of other corporations; charging as a cost interest on money borrowed for the acquisition of other businesses: the scope of such devices and other so-called incentives was demonstrated in an analysis released by Statistics Canada in January 1988. It was derived from corporate tax returns for 1983, when in theory the statutory rate of corporation income tax averaged 36 percent.

In fact, the average rate of tax paid by the large companies was 9.6 percent of profits. About half of those companies (defined as having assets of over $100 million) paid no tax at all. Although they officially benefit from a concessionary tax rate, small companies in fact paid as high an effective tax rate as the giants. The companies that had to pay something closer to the theoretical rate were predominantly in the medium-size category ($10 million to $25 million in assets); their effective tax rates averaged 17.1 percent. This is a perverse anomaly indeed, particularly since firms of medium-small size are the ones from which there is most hope of innovative enterprise. The tax reforms of which there has been so much talk since 1983 will do little to correct the anomaly.

The ability of large corporations to avoid tax has had no effect on the psychology of paying large compensation and perquisites to executives in the spirit that they are "pre-tax" expenses for the corporation. It has, however, made the tax system appreciably less progressive. In personal income taxation there is, of course, provision for a lower rate on dividend income, on the grounds that it is income that has already been taxed in the hands of the corporation. In principle, it is entirely fair that double taxation should be avoided. But the concession in personal tax is given for dividends from a taxable corporation, irrespective of what tax, if any, the corporation has in fact paid on its profits. The effect is that some shareholders, particularly of large corporations, are under-taxed by comparison with less fortunate citizens.

However, both this inequity and the inducement to managerial extravagance are relatively minor effects of the present tax structure. The major effect is that the market forces of the economy are stifled at

precisely the point at which they ought to do most good. That is in determining the directions of enterprise and innovation. The savings that could finance enterprise and innovation are instead heavily concentrated in the undistributed profits of established large corporations.

The reason for this is not simply the powerlessness of the small shareholder in the large corporation. The tax system gives the shareholder an economic motive for accepting his status. It does so because capital gains are taxed much more lightly than current income. Money left in the corporation may therefore do the shareholder more good, by raising the value of the shares, than money taken in dividends as taxable income.

It used to be thought that the shares would appreciate because the company used the undistributed profits to invest in improving its equipment and operations. Nowadays the shareholder may gain even more if the company supplements the savings by borrowing to acquire new businesses, or if it simply keeps the savings in liquid assets. In the second case the company makes itself a more attractive target for the modern corporate raiders who, with their leveraged buyouts and junk bonds, will pay far more for the shares than the value previously put on them by the market. In this casino of paper entrepreneurship both shareholders and company executives may realise far larger capital gains than would come from steady development of their company.

In any event, what is lost is the essential virtue of market-driven capitalism. The vast pools of capital that large corporations accumulate as retained earnings, instead of paying them to shareholders to whom they belong, are the main resource available for the development of the economy. They do not go into open markets where entrepreneurs compete for funds on the basis of their ability to do things better, to build more efficient factories, to develop improved products, to provide cheaper services, to open new markets. They are invested according to the interests of established managers of large corporations, shaken up sometimes by the manipulators whose fortunes come from buying and selling existing assets, not from economic innovation.

In fairness it should be said that, since some variety of judgement and a little element of competition continue to be involved, this system may still serve the public interest somewhat better than would the concentration of investment decisions in one set of government officials. But free enterprise it is not.

We have created a financial system in which there is plenty of capital for large corporations and for manipulators of ownership claims, but many small and medium-sized businesses are starved of capital. The scales are particularly weighted against new businesses

gaining a firm footing. Big business joins in lip-service to the merits of flexibility, of enterprising adjustment to rapid change, but at the critical point—the flow of equity capital into risk-taking adaptation and innovation—we cramp and distort the market we are supposed to believe in. We have built a world that is good for corporation executives, for organization men and manipulators of paper. It is not good for the people on whom real development so largely depends, for the entrepreneurs of products and processes.

If we are to have the kind of economy we preach about, the central reform required is obvious. It is to provide in companies legislation that all the income of a corporation must be distributed to the people to whom it belongs, the shareholders. With this, of course, the need for a corporation tax disappears. All the income will be fairly taxed in the hands of its owners.

This would be a radical change in the way corporations operate. It has to be, if we are to secure the benefits of a genuine market economy. It involves too much upheaval to be done overnight. Practicability requires a transition period. How that can be provided will be discussed in the next section. I ask readers who are shocked by the idea of business without retained earnings to suspend their protests until they have looked at the transitional proposals.

The requirement that the corporation distribute all its earnings does not mean that shareholders who so wish cannot put their money back into the same business. Those who so wish can take stock dividends instead of cash—provided, as will be proposed later, the same personal tax is paid. This choice would no doubt be made particularly often when a few shareholders are building up a new business. The point, however, is that how business profits will be reinvested will be decided by numerous individuals exercising their own judgement. It will be a genuine market decision, not an administered decision of corporate management.

It may be noted that, if it were considered to be desirable public policy, this tax regime could be adapted to facilitate the transfer of family businesses within the family when the proprietor retired or died. Tax could be deferred on dividends set aside in a special fund, to become available at the time of transfer. This would be similar in principle to registered retirement savings plans.

The shift from corporate to shareholder income would, of course, require several accompanying changes in taxation. Some will be discussed in the next chapter. For this section, one further point is sufficient.

Some constitutional lawyers may question whether the federal government has jurisdiction to prohibit the retention of income by companies that are provincially incorporated. This is a problem that can certainly be solved. Parliament can impose a high tax on all

retained business income. Corporations would then have no effective choice but to pay shareholders their money.

As a permanent measure, direct legislation is preferable. The taxing power means, fortunately, that the provinces could not refuse to pass parallel provisions, if necessary, in their companies legislation. This is an area where the federal government still has effective power of leadership. It should be used to give us the kind of competitive, adaptable market economy that the business community rightly takes the lead in saying that we need.

For this purpose, the abolition of retained corporate earnings is not a panacea. But it would greatly help. It would put decisions about equity investments into the hands of the people whose money is at risk. It would give small business fairer access to capital. There would be more investors and companies of small and medium size with resources and opportunities to create new products and find new markets, to develop technology in Canada and put capital into it. It would encourage the businesses that are the main sources of innovation and employment growth.

The reforms would, in short, help to give us more of the creativity and efficiency of a true market economy.

Transition

They should therefore be welcome to the business community and to all those, in politics and the professions, in clubs and universities, who are verbally dedicated to the market virtues. In practice, the welcome is likely to be thin.

"Business opinion" is not made by the hundreds of thousands of people who own small enterprises and conduct the day-to-day operations of the rest. The concentration of control in Canadian corporations is such that the prevailing opinions, the opinions that are heard by politicians and the rest of the community, are those of very few people. Most of them are now associated in the Business Council on National Issues, which has become a lobby group of great influence. It is not representative of business in the jungle, but it is the bureaucracy of the corporate world. Its members are the captains of industry precisely because they head the corporations that dispose of large incomes. Theirs is the power that would be reduced if corporate incomes were returned to the market. They would cry murder.

They would say it so strongly, and to such effect, that they might make their predictions of disaster correct. If reform were sudden, there could well be not temporary confusion but panic. Rationally, the shares that should fall in value on the stock exchange, as a result of the reform, are those of the companies that have been most successful in avoiding taxes. But stock markets plunge and soar in the winds of

rumour, irrational expectations, wild hopes and fears. Predictions of disaster from sources such as the Business Council on National Issues might produce a stock market crash in which many people would be hurt initially and by which the economy could be damaged for some time.

This does not mean that reform is impossible. It does mean that a responsible government can undertake it only with careful transitional arrangements that make self-interested objections unconvincing. One provision of this kind ought to suffice, but for greater certainty two can be suggested.

The proposed legislation would provide, permanently, that shareholders can be given the option of taking their dividends as stock. This would, of course, be subject in the permanent arrangement to paying the same personal tax as if the dividends were kept as cash. In the transition period, however, a tax incentive could be offered. The present rate of federal income tax, for almost all people who receive dividends, is 29 percent. For say, two years from the start of the reform, shareholders who returned all or part of their dividends as payment for additional stock in the company could be allowed a tax remission of, say, 15 percent of the amount. In the third year this remission might be phased down to 10 percent and to 5 percent in the fourth, disappearing in the fifth.

So substantial an initial incentive—halving the tax—should ensure that many shareholders retain the presumption that much of their money is best left to continued use by the company from which it originates. Any board of directors that is afraid of not getting enough of its earnings back, despite this incentive, would be admitting that it has hitherto been greatly abusing its shareholders by keeping their money from them when they very much wanted it.

It could be, nevertheless, that some companies would be worried about having enough cash, particularly if they were previously committed to projects that they had expected to finance from retained earnings. A second transitional arrangement might therefore be that, for the first year, companies could retain a good proportion—say, up to 50 percent—of their income. That proportion could reasonably be scaled down fairly quickly, to disappear within the three years or so that would be adequate for a corporation with any survival ability at all to rearrange its finances.

It would obviously be necessary to retain a corporate income tax during the transition period. A flat rate on the retained earnings could appropriately be just above the net rate on stock dividends—that is, 15 percent for the first two years, 20 percent in the third, 25 percent in the fourth if the transition period had to be stretched out that long.

As always, my figures are illustrative only. Refinements of the scheme would no doubt improve it. For the purpose of this book, it is

sufficient to show that the shock of returning investment to the market can be made gradual enough for this most important reform to be practicable.

Foreign ownership

I have already indicated an opinion about the large degree of external ownership of Canadian business. We would be better off if we had not allowed so much of it; but having it, we would be worse off if we tried to drive it out. We should not now discriminate against foreign capital that was accepted, indeed often encouraged to come here, in good faith. There may be worthwhile inducements or legitimate pressures for foreign-owned enterprises to behave as they would if they were Canadian-owned. But government should not treat an enterprise in Canada differently just because it is owned or controlled by Americans or Japanese or whoever, rather than by Canadians.

That principle obviously should apply equally to future foreign investment that becomes established in Canada. It says nothing, however, about the extent to which such investment should, from this day forward, be allowed to become established.

There are, of course, two main forms of foreign direct investment: create new enterprises, acquire existing enterprises. They call in my view for very different public policies. We should welcome the establishment of new enterprises unless there are exceptional reasons for not having some particular undertaking in Canada. We should prohibit the further sale of existing Canadian businesses unless there are exceptional reasons why foreign acquisitions will be beneficial.

The present government early rejected the second half of this proposition, abolishing the Foreign Investment Review Agency (FIRA) with a ringing declaration that Canada was now open for business. There were, indeed, few tears to be shed over FIRA. It was a fussy drag on investment rather than a safeguard of Canadian ownership. That was because it had only vague instructions as to the criteria by which to judge whether or not particular investments would be beneficial to Canada. Agencies without definite policy guidelines rarely do much but shuffle paper slowly.

There are, unfortunately, many indications that open for business means open for further sale. The Canada-U.S. trade agreement creates an encouraging environment for takeovers. The very fact that the takeover mania in the United States is beginning to encounter a backlash may encourage some investors to look north of the border and see companies that are under-valued in the sense that makes them ripe to the acquisitor's eye.

Since this Conservative government has so far been highly sensitive to shifting gusts of opinion, it may be necessary to hope that

takeovers do not stir too much nationalist sentiment against foreign ownership in general. In a country with as uneven a base of manufacturing as we have, with an economy so widely dispersed as ours and with such an abnormal proportion of its activity already in the control of foreign firms, there is bound to be a fervent wish to broaden the range of Canadian technology, management and entrepreneurship. Yet, however much we regret the foreign ownership that might have been avoided, we cannot count ourselves out of the globalisation of business that is now gathering pace.

The trend is all the more reason why we should adopt policies that invigorate Canadian enterprise as much as we can. That is the purpose of some of the proposals of this book. It is possible for us to establish in future more Canadian enterprises at world standards of efficiency. But we would not help ourselves to do that by discouraging foreign firms that are faster than our own in creating new enterprises in Canada, increasing competition and diversifying technology.

This does not mean that there should be no Review Agency to do what FIRA was so little equipped to do. There should be. But it should be clearly based on a general presumption that foreign companies creating new enterprises are to be welcomed. The burden should be on objectors to show that there are special reasons why any particular enterprise would damage the Canadian public interest.

Equally, however, the burden should be on the salesmen to show that the acquisition of an existing Canadian business by a foreign company is beneficial to Canada. There have to be special circumstances indeed to offset the general presumption that takeovers lessen our chances of finding the best niches for Canadian enterprise in the global market. There are already very few industrial sectors in which there is opportunity to develop comprehensive Canadian teams in research and development, technology, plant operation, marketing, management and entrepreneurship. Though takeovers are often defended with the assertion that the existing people will be left in place, in fact a subsidiary is by its nature a different organization from an independent company. There is no point in it unless basic policy decisions are shifted to the parent company. The same people may be in ostensibly the same jobs, at least for a time, but the emphasis is changed; there is not the same opportunity to develop a depth of Canadian expertise with a Canadian perspective.

Our base in technology and entrepreneurship is already thin. Propagandists may beat their breasts in proclamation of our ability to compete in the world, but the fact is that the limited range of Canadian expertise is a handicap. Certainly it would not be overcome by protection, by keeping out new enterprises. But nor can we afford to let the base we do have be eroded by further selling of existing Canadian enterprises into external ownership. While there are always

special cases, the general rule for a new Review Agency should be that our economy will have the best chance to develop if what is now in Canadian ownership remains Canadian.

There is need to emphasize this in the context of other items in the policy agenda I am suggesting. The next chapter will include the proposal that a company should not be able to charge against its income interest on money borrowed to acquire another company. That reform is critical to the revival of a genuine market economy. It is being talked about in the United States too. If and when that talk will come to anything is, to say the least, uncertain. We should not wait. Subject, as I suggest, to certain transitional provisions, we should make a change that will enhance the enterprise and competitiveness of our economy—the real economy of production. But if the Americans do not move too, we will be at a disadvantage in the economy of paper trading. American purchases will have an additional borrowing advantage in the bidding for a Canadian company that is up for sale. The playing field will be yet more uneven.

It is uneven enough already to make necessary the sharp distinction I have drawn between the two kinds of future foreign investment. Our policies should aim to preserve the Canadian ownership we have while encouraging innovation and competition by keeping us as open as any country to new enterprises whatever their ownership.

Strategy and competition

If the proposals of the preceding sections have any merit they would certainly change our economy considerably. However, as I said at the beginning of chapter six, they are not offered as panaceas. This section therefore comments briefly on several other aspects of economic policy.

One is that a vigorous private sector requires better information from government. Whether business decisions are winners or losers, whether they prove to be efficient or wasteful uses of economic resources, now often depends less on the invisible hand of the market than on the accuracy of business anticipation of government actions and their results.

Governments do not do much to assist such accuracy. They have, of course, the sovereign right to do what they like that effects the future decisions of business. They sometimes abuse that right, however, by introducing new or changed policies with less lead time than could be provided. More often, they create unnecessary uncertainty by prolonged and obvious indecision. And sometimes they frame changed policies in ways that unnecessarily and even carelessly affect the outcome of previous decisions, the return on investments already made. The consequential windfall losses and gains are a

needless addition to the many sources of uncertainty that, in conditions of rapid change, confuse and delay business decisions.

I am not suggesting that policy changes by government can be so limited that there are never adverse effects on business underway. It is wise, however, to be on guard against causing avoidable disruption because the rules of the game are changed from those in operation when earlier decisions were committed.

The other information requirements on government are more positive. They are, in essence, that politicians be franker about their intentions and expectations for the economy. The importance of this can be illustrated by the example of the exchange rate. It is crucial for business decisions on investments for export or for production competitive with imports. Yet governments can rarely resist taking credit for a "strong" dollar and fearing blame if the dollar is "weak". Their bias is repressive of initiative.

Politicians who want the private-sector economy to be vigorous should be more prepared to discuss the judgements regarding the future that are critical to business decisions and for which they should have a better information base than is available to anyone in the private sector. I am suggesting neither that Canadian governments can produce formal five-year plans as guidance for business nor that politicians can be expected to give large hostages to fortune by detailed predictions. Equally, however, it must be recognised that the genuinely Canadian business sector—multinationals aside—is pretty small and has to face great international and technological uncertainties. It can be helped to perform at its best by objective, credible discussion from government of likely scenarios, of difficulties and opportunities and what can be done about them.

This brings us to the question of an industrial strategy, which in recent years governments have approached and shied away from. The need is obvious. Exports of natural resource products, of wheat and newsprint and metals, are not going again to pay for Canada's imports to the extent that they used to do. But our industrial base is too narrow, and too much of it is occupied by subsidiaries designed only to serve the Canadian market, for it to be possible to think that we can develop world-scale efficiency levels, required for really successful exporting, in more than a limited range of industries.

A successful industrial strategy would recognise those industries and use the levers of public policy to facilitate their development. If it could be done, if we succeeded in putting our eggs into a few well-chosen baskets, we would make large gains in comparative advantage, in our competitive strength in the world economy.

However, while the prospect is alluring, it may be a mirage. Governments do not have much of a track record in picking economic winners. Many mistakes can be cited, though Japan and the newly

industrialising countries provide some contradictory evidence. It is difficult to assess whether governmental performance is on balance greatly inferior to that of the private sector. The success stories of private enterprise get wide acclaim; the mis-investments, the failures, are usually buried quietly, while poor projects in the public sector are sensations for years. In reality, of course, whether the money lost is public or private makes no difference to the waste of society's resources involved in any unsuccessful venture.

Perhaps the decisive factor, which limits such hope of an industrial strategy as I ever had, is that governments are naturally more prone to throw good money after bad, to persist with a venture after serious possibility of worthwhile return has evaporated, than is possible for private enterprise. For this reason, I share the sceptics' view about any strategy calling for large public investments in industry.

This is not, however, to dismiss a more limited concept of industrial strategy. There is no possibility that the Canadian private sector, with its limited range and resources, will do all the scientific and industrial research necessary for us to be in the mainstream of technological advance. A good deal of research and pre-development needs to be done on government initiative with public funds. The priorities set for this activity can and should be based on a coherent view by government of the economic sectors in which there is a reasonable chance that we can achieve world-scale efficiency. An industrial strategy in the sense of a research and development strategy is, in the modern economy, a needed function that only government can provide.

Resistance to any kind of industrial strategy is often loosely linked with fear of more of the government regulations that allegedly are so burdensome to enterprise. There is no connection. Regulations are not the tools of strategy.

It should be added that, while there is much exaggeration of the regulatory burden created by the need to protect public health and safety and to make life somewhat difficult for cheaters, there certainly are cases where regulations for which there was originally good reason are unnecessarily continued in changed conditions. Transportation has provided examples. For the most part, however, our regulatory system is a necessary protection of public interests. The genuine fault is the cumbersomeness of some of the administration, particularly in matters where federal, provincial and municipal authorities all have involvements. Streamlining here is one of many ways in which there is need to secure better coordination of government within our federal structure.

The vitality of our private sector is more seriously hampered by the inherent tendency of government enterprises, once started, to be

perpetuated. Air Canada is the clearest case in point. For many years it was a greatly valuable national undertaking. Equally clearly, it some time ago became unnecessary that the credit of the government of Canada should be used for the purchase of commercial aircraft. Air Canada should be completely, not partially, privatized, not because private enterprise is certainly better (though, in this case, there is reasonable expectation that it would be somewhat so) but because it makes no sense to limit private enterprise in established fields when there are important new things that can be done only through the public sector.

Business needs, I have argued, better information from government. There are also areas in which government needs better information from business. This is particularly a neglected tool of competition policy. There are not many sectors in our economy where reality closely resembles the perfect competition of economic theory. Conventional policy of the anti-combines type can do little about this. Too many activities, in the service industries as well as in manufacturing, are now too capital-intensive, require too large a scale of operation, for our relatively small and geographically dispersed economy to support many competitive units.

In this situation, the main measure by which we can protect the public interest against restrictive and inefficient practices is to require businesses to reveal more about themselves to their shareholders and, therefore, to their workers and to the public. Our present companies legislation is woefully weak in the information required about the corporation as a whole; it is almost non-existent in the information required about the diverse operating units of conglomerate firms. A healthy breeze of disclosure would do a great deal to sweep some of the cobwebs out of our economic system.

This is not to suggest that there is any substitute for the force which, in our open economy, makes the competitiveness of many industries the price of their survival. This is, of course, international trade and particularly the increasing role, in many sectors of that trade, of the powerful manufacturing facilities of the newly industrialising countries. Some of our industries are bound to lose ground to them, and also, in a few labour-intensive sectors at least, to even newer industries of the less developed Third World. The substitute opportunities for us depend on the widest possible freeing of trade. Since 1947 Canada has profited much from the international process of reducing trade barriers through the GATT. We should continue to be devoted to it, while recognising the mounting requirement for competitiveness and flexibility in an advancing world economy.

8.

Better Taxation

Criteria

A fair tax system is crucial to civilized society. An efficient tax system is crucial to a vigorous economy.

Fairness embraces both horizontal equity: people with the same resources pay the same taxes; and vertical equity: the person who is better off does not simply pay the same proportion of his or her resources as the person with fewer resources; the proportion is graduated to ability to pay, so that tax takes a bigger percentage of bigger resources.

The existing Canadian tax system is imperfect in both aspects of fairness. Nor is it efficient. I am not referring to its internal efficiency, the extent to which the tax system is administratively effective in raising its intended revenues. The marks to be given on that score are fairly high. But the even more important criterion is economic efficiency: whether the effects of taxation on economic activity are as benign as possible.

For some people, this is a strange phrase. Taxes take resources from the private sector. They prevent people from doing some of the things they could otherwise do. The deprivation is often discussed as if it meant that taxation is inherently an attack on economic efficiency.

It is not. Better schools and roads do more for economic welfare than more pizza parlours and cinemas, medicare more than tobacco.

The spending power redistributed through graduated taxation enables poorer people to meet more pressing needs than richer people have to give up; some people eat better, others spend less on vacations.

The economic gain from many kinds of public spending obviously does not mean, however, that all taxes yield net benefits. Different ways of transferring resources through the tax system have different effects on the private sector. The worst effects of the present system arise from the distorting nature of the corporate income tax and the methods of avoiding it. This would be cured by the proposal of the previous chapter. Some implications of that major change remain to be discussed, but there are also considerations of efficiency as well as equity that call for other major reforms in taxation. I shall begin with personal taxation.

Personal taxation

Personal taxation is usually thought of as the taxation of income from work and current returns on investments. In Canada some kinds of capital gain are now included, but at a lower rate and subject to considerable exemption.

My first proposition is that the base of a uniform personal tax should be much broader. It should include the full amount of capital gains; all gifts and inheritances; the value of all perquisites provided by an employer; separation allowances (as income, not as transfers to retirement funds) and other varieties of "golden handshake" from corporations; stock bonuses; pension provisions in excess of the maximum contribution to a pension fund allowed as a business cost; and all the rest.

In short, as the Carter Royal Commission on Taxation is famed for saying, a dollar is a dollar. The fair base for personal taxation is all the money and claims to money that a person receives in a tax period.

How the money comes to me is beside the point in determining the proportion of it that I should contribute to the civilized society in which I receive the money.

In the previous paragraph I said "tax period", not a year, because an individual's total receipts from all sources may well vary erratically from year to year. If tax rates are graduated, it would be neither fair nor practicable to require that all of the tax liability always be discharged in the year of receipt. A limited degree of averaging has usually been allowed even when income is narrowly defined. With a broad definition of the tax base, considerably more extensive averaging is necessary. That, however, in no way qualifies the principle that all receipts are taxed and that people with the same receipts, over a period of a few years, will pay the same tax whatever the source of their money.

No tax system can be entirely simple. Even the fundamental principle that a dollar is a dollar requires some modification to take family relationships into account. Spouses and dependent children are special. Most peoples' understanding of fairness would require a substantial exemption level, up to which money can be passed to a widow or widower and dependent children. The amount of the exemption requires careful consideration. My own preliminary judgement is that it might reasonably be up to $250,000 each for a spouse and each infant child, with a diminishing scale for older children.

The exemption would not, of course, be applicable to sons or daughters who have reached tax-paying status. Nor can tax administration recognise gifts *inter vivos* when the recipient is not a taxpayer; the responsibility must remain with the giver until the recipient becomes a taxpayer or the death of the giver makes the gift part of an inheritance of a spouse or dependent child. Also, specific provisions would be necessary for the dependent children of divorced parents, if the divorce settlement has not already provided for a distribution of family property that protects their inheritance claims.

The broadening of the tax base would, of course, require in itself a larger administrative apparatus. There would be more transactions to keep track of; and while computerisation makes cross-checking easy it does not do away with the need to get relevant data correctly entered. On the other hand, the broad base would remove the main source of complexity—and evasion—in the present tax system: all the contortions that are gone through in order that money received can be represented as something other than taxable income. The extent of tax avoidance has become obscene. Even according to the recorded statistics, in 1985 there were 165 people who had incomes (on the narrow definition) of more than $250,000 but nevertheless paid not a cent of income tax. There is now, fortunately, general agreement that most personal tax expenditures—the devices that enable some kinds of investment to be set off against tax liabilities—are to be abolished. To combine this cleansing with the institution of a comprehensive tax base would not only remove most of the murky uncertainty from tax administration but also greatly ease the problems of enforcement.

The major direct benefit is, of course, horizontal equity: people with the same ability to pay will pay the same. The person whose income is from wage or salary will no longer suspect, with reason, that many people as well or better off are getting away with less tax.

The second important benefit of a broader tax base is that the same revenue can be raised at lower rates. Much of what is said about the disincentive effects of taxation is supported neither by evidence nor by commonsense. It is true that at low wage levels even a very small tax can combine with the deduction of earnings from social assistance

to make the financial attraction of employment slight. But that is a special situation to be corrected by changes in social assistance, not in tax. There can be few people whose point of choice between work and leisure, between saving and spending, is much influenced by whether his or her marginal tax rate is 20 percent or 30 percent, or even by the difference between 30 percent and 40 percent.

Nevertheless, it remains obvious that we want to contain tax rates, particularly on lower-middle and middle incomes, as much as is practicable; and a broader base will help. The acceptable rates depend in part, of course, on how graduated they are. Recent changes have made them less so over most of the income range. The federal rate, beginning at 17 percent, now rises quite steeply in two steps, to 29 percent on taxable income above $55,000, but stops there. Provincial taxes, of course, add about half as much again, for a maximum combined rate of roughly 44 percent.

One must ask why, if a Progressive Conservative administration regards quite steep graduation of rates as acceptable over the low and middle ranges of income, it excludes high incomes from graduation. Progressive principle in taxation surely calls for further steps.

The plea against increasing marginal rates that is often made nowadays, the plea for "simplicity", is hypocritical. The complexity that we all dislike arises from the present elaboration of rules as to what is taxable and what is not. There is nothing complicated about higher marginal rates as such. The issue is simply how far and how fast they should rise. On that there are, obviously, widely different opinions, and sophisticated people tend to be unwilling to be precise about their opinions. Perhaps the reason is that nothing is more revealing of the kind of society in which one would like to live.

A rate structure can be arrived at only by some process of consensus, but that requires people to contribute their individual opinions. For the sake of illustration only, I will offer my suggestions. Accepting the present rates as reasonable as far as they go, I would provide additional steps, fairly shallow and at quite long intervals, for those fortunate enough to have larger incomes. There might be a 4 percent increase (making a marginal rate of 33 percent) on income over $100,000, three further 4 percent steps at $100,000 intervals, and a final 5 percent step—to give a federal marginal rate of 50 percent—on income over $500,000. This would mean a combined marginal rate, for federal and provincial tax together, of about 75 percent.

Under this structure, the person with $500,000 a year would retain just about half of it as after-tax income. I do not believe that anyone with $250,000 a year net is going to be deterred from any significant activity because he or she keeps only one in four of further dollars. Admittedly, a few people do catch the disease of amassing wealth for accumulation's sake. The best and the brightest, the people

who make, to the economy and the society, contributions that would not happen without them, have neither inclination nor time to worry too much about great possessions. The satisfactions they look for come from opportunities to be creative and enterprising.

It is true that a few skilled people are mobile; some may move from Canada if they are taxed more than in the United States. This danger of a brain drain can be exaggerated for bargaining purposes. Few people live for after-tax income alone. There are many features of Canadian society to hold the loyalty of those who have most to give to it. The proposals of this book would, I think, further strengthen the freedom and tolerance for enterprise that able people value. It is not enough, admittedly, to help ability to flourish; the rewards must be enough to satisfy it. I do not propose to carry "progressiveness" so far as to deny that.

The common phrase, progressive taxation, is value-laden. It is better, in my view, to speak of graduated taxation. The reason for it is that our kind of market economy, not the market of economic theory but the real market in which the participants have greatly different degrees of power, produces a very erratic relationship between ability, in all its forms, and rewards. There is, indeed, a relation. But in many activities a slight difference in ability produces a very large difference in rewards. What particular ability results in great rewards depends very largely on luck, on the accident of being born to the right parents, on knowing the right people, on being in one position rather than another at a particular time, on making the lucky guess when it is no more than a guess. Nothing succeeds like luck; once you have the first million, the second usually comes much easier.

To moderate extremities of rewards by graduated taxation is, of course, primarily a matter of the fairness of the society. But it is also a powerful aid to the efficiency and capacity for change of our economy. Nothing is more inhibiting to sound economic policies than the deep-seated, and currently well-founded, belief that the rich always get richer; that whatever sacrifices may be demanded in the name of containing inflation or meeting international competition, whatever unemployment, whatever bankrupting of farmers and small business by the squeeze of high interest, whatever controls on union bargaining, still the same few people controlling corporate empires will continue to amass additional wealth. Progressiveness in taxation. convincingly applied, is essential to the social contract that makes it possible for democratic politicians to implement realistic fiscal policies for an efficient economy, fully employed without inflation.

There is, admittedly, an alternative way of meeting this requirement. In the absence of graduated taxation on higher incomes, a government could stand ready, if it had to impose wage controls in an inflationary situation, at that time also to implement a wealth tax—a

levy on all personal assets over some minimum amount. That would probably serve the immediate purpose in an emergency, but it would be a crude, disjunctive measure of the kind that good government always seeks to avoid. It is far better to have a steady policy of effectively graduated taxation to moderate the degree to which wealth amasses additional wealth.

In the lower part of the income scale, the fairness of the tax system depends not only on the initial marginal rate but even more on the provisions that determine where it begins and on the extent to which the tax system is integrated with income support and maintenance measures such as family allowances and social assistance. In recent years there have been important, if hesitating, part-way steps to replace exemptions by tax credits. Exemptions, of course, are regressive; their value rises with one's marginal tax rate. Credits are of equal value to all who would otherwise pay the relevant amount of tax. And refundable credits—that is, those that are paid out as benefits if the "taxpayer" does not in fact have tax liabilities against which the credits are offset—are powerful weapons against poverty. In the next chapter I shall join in the suggestions that have been made for enlarging refundable tax credits and thereby integrating the tax system with income supports.

Meantime, the other important reform at the low-income end of the tax system is to insist that all the relevant amounts—tax credits, benefits such as family allowance, the starting points for tax rates—are maintained in significance by full indexing to the cost of living.

One other feature of personal taxation remains for discussion in this section: the tax havens provided for pension funds and other retirement savings. In recent years not only has the standard provision been generous; people fortunate enough to enjoy early pensions or separation allowance have been able greatly to supplement their tax-free saving. In this respect, proper sentiment on behalf of the elderly has been twisted into a highly discriminatory favour to the relatively well-to-do.

The supplementary transfers are now due to disappear in the 1990s, but reforms should go further. It would be neither fair nor practicable to abolish all tax sheltering of retirement savings. But nor is it fair to raise the ceiling for standard transfers, as the present government at one stage proposed to do on a large scale. That would be another distortion in favour of the well-to-do. It would be fairer to convert the present exemption to a smaller tax credit, which would give more assistance to the saving for retirement of people with low to medium incomes.

Medicare

Medicare is included, perhaps surprisingly, in this chapter because I am proposing that its benefits should be treated, in a special way, as personal income.

Social programs will be discussed in the next chapter. To be effective and fair they must be integrated with the tax system. The "Carter" principle outlined in the preceding section means that all social payments, like all other money, will be included in the resources subject to personal tax. Provided that this is done, and if tax rates are graduated, there is no substance to the case that is sometimes made against the universality of programs such as family allowances and old-age security. To set up separate criteria of need for such benefits is administratively clumsy as well as socially objectionable, because it divides people into classes. There is no reason for it if the payments to better-off families and retirees are largely recaptured according to the standard measure of equity embodied in the universal tax structure.

The social programs under which the government provides services, not income, pose a different problem. It is a problem of efficiency and equity if people use the service to greatly varying extents. There are two conspicuous examples. A better way of financing post-secondary education will be discussed, along with related issues, in chapter ten. This section turns to the particularly difficult issue about medicare.

Few things that government does are so important. For access to health care to depend on ability to pay, or for a child on the parents' ability to pay, is entirely unacceptable in a democratic society. But, essential though a "free" public health service is, its fair and efficient operation is extremely difficult. Individuals' needs for service vary greatly and suddenly. Most understand little about the causes of their troubles and know less about the appropriate cures. Some exaggerate their needs, others are doggedly stoical. Doctors, harried by some patients and consulted too little and late by others, have to make dauntingly difficult decisions about what should be done for whom.

To achieve the right priorities in matching services to needs would be difficult enough even if the professional tradition was that doctors, like teachers and priests, worked for salaries. It is unavoidably more difficult when most doctors are remunerated by fees scaled to the service performed. That principle is far too entrenched to be appreciably disturbed in the foreseeable future.

It means, however, that there is bound to be some distortion of priorities and a degree of waste. No doubt it is only a small minority of doctors who abuse medicare, who are influenced by the maximization of their incomes when they decide what should be done for some patients with some types of ailments. But the more altruistic the doctor, the less he or she is likely to be conscious of costs when making

professional judgements; the human presence is to do what is best for the ill or hurt person in front of them, regardless of cost. The system does not lend itself to any careful, consistent evaluation of priorities. The resulting danger that finances will get out of control is greatly strengthened when scientific and technological advances are rapidly increasing the range, choice, sophistication and expensiveness of medical treatments.

Governments have reacted by imposing financial ceilings. That can only result in further distortion of priorities and a lessening of the quality of the services to which some people can secure access. Medicare in Canada has been and is a great success. It must be maintained. But in fact it is now being weakened by what amounts to an arbitrary rationing of services. This in turn makes for cynicism in the medical professions and inclines doctors to support reactionary demands for user fees or to engage, if they can, in extra-billing.

All such devices defeat the purpose of medicare. If they are big enough to be any restraint at all for people with middle and upper incomes, they are a major hardship for the poor. The effect is that some people are denied higher-quality services that other people receive for only a fraction of their cost, the greater part of it still being paid by the community at large. That is perverse subsidization.

"Free" service cannot, however, be provided without restraint. Some health administrators have found a degree of relief through devices to control doctors' billings. That may correct some abuses, but they are not the major problem. Other experts in the field see large scope for improvements in hospital administration and in the organization of practice through groups and clinics. Obviously, such progress is welcome. Equally obviously, it cannot be expected to cure the problem unless it is linked with action that goes to the crux of that problem: that the patient has no consciousness of costs and the prescriber generally has no inducement, or only a very vague inducement, to take them into account.

There is a way to change this without creating financial barriers to needed care. It is to use the graduated tax system. My proposal now—as it was nearly thirty years ago, when I was involved in preparation of the medicare plan—is that comprehensive medical care should be provided entirely free to everyone at the time of service, but the cost of the services provided in the year to each individual and any dependants would become an item of income on his or her tax return. This does not mean that it would all have to be treated as income in the same year. To protect people who had required expensive treatment, the cost taken into account in any one year would be limited to a proportion of income—say, for the sake of illustration, 10 percent.

Thus a person with an income of $40,000 who received medical services costed at $1,000 would be treated as having income, for tax

purposes, increased to $41,000; but if extensive care had cost $10,000, income for the year would be treated as $44,000 (the maximum 10 percent increase). In the second case, the balance of medical costs ($6,000) would be carried forward to subsequent years, but the addition in any one year would never exceed 10 percent of that year's income. Any balance outstanding at death would be cancelled.

Some people object that this is a proposal to tax ill health. It is, but to a small and equitable degree. The person or family on a low income, and therefore paying no tax, would continue to receive all medical care completely free. The person with a taxable income of, say, $25,000 has a marginal tax rate (federal and provincial combined) of about 25 percent. Therefore, however expensive the total medical services provided to such a person or family, the maximum reduction in disposable income in any year would be about $625. Even at an income of $100,000, the maximum additional tax would be about $4,400 a year, however large the medical costs incurred. Even if the more graduated tax rates that I suggested in the previous section are adopted, people would have to be comfortably off indeed before they contributed more than that. This would remain true even in the event of grave illnesses and accidents, involving medical costs of many tens of thousands of dollars, that, in the absence of medicare, could be financially crippling to almost everyone.

We cannot close our eyes to the increasing strains on our resources for health care that come not only with advancing medical technology but with the aging of the population. If we do nothing, arbitrary restrictions will increasingly impair the quality and the fairness of some of our medical services. It is far better to make a correction now. Use of the tax system, in the form proposed, would not create financial barriers to needed service. It would have a significant psychological effect, by making patients and doctors more conscious of the costs of treatments. That is the necessary basis for organizing services according to priorities in health needs.

One small point should be mentioned because, against the background of federal-provincial controversies on health, it might loom large. Roughly two-thirds of the tax revenue from the proposal would accrue to the federal government. The provinces would undoubtedly object that this is disproportionate. However, since the main point is to modify attitudes about costs and priorities of service, rather than to raise revenue as such, it should not be difficult to agree peaceably to an appropriate adjustment in federal-provincial finances.

Business taxes

The corporate income tax in its present form is a poor tax. There would be a great deal to be said for replacing it even if corporations continued

to be treated as having income for tax purposes. The proposal of the previous chapter, however, removes the need to ponder modifications. Business income would be distributed to shareholders and appropriately taxed in their hands as personal income.

Some implications require mention or discussion. The present reduced rate of tax for dividends, on the grounds (often imaginary) that the income has already been taxed once, would disappear. Dividends would become dollars like other dollars.

When, that is, they go to personal taxpayers in Canada. Many company shares are held, of course, by other companies. This does not make a difference of principle provided the rule that companies cannot retain income is comprehensive. As always, however, there are technical complications. Companies must be allowed a reasonable time, after the end of a financial year, to get audited statements of profit and to arrange the cash to pay the profit out in dividends. There will have to be rules to ensure that the cash flow is not unreasonably delayed by being passed through a string of companies, with carefully designed financial years, before it finally reaches people. It also becomes important, if there is no corporate income tax, to prohibit companies from holding their own issued shares in more than nominal amounts.

As in any tax system, specially tailored provisions are required for financial institutions investing on behalf of their depositors, pension fund contributors, policy holders and other savers. Adequate coverage of their liabilities to customers must be segregated from the institutions' profits for their shareholders. This would not be altered by the provision that those profits must be paid out.

Shares held by foreign companies and individuals are another matter. The company in Canada must still be required to pay out all its income as dividends. As I have argued in the preceding chapter, whether or not we regret that we ever allowed so much foreign ownership of our economy, there is no justification for treating those owners, once here, differently from Canadian owners.

That principle does not exclude difficult issues. We have to try to ensure that we are not cheated by subsidiaries of foreign corporations that reduce their declared Canadian profits by claiming as costs excessive fees to their parents or by fixing artificial transfer prices for transactions between parent and subsidiary. These, however, are recurrent problems in tax administration, not particular to the proposed reform.

With that reform, it would be necessary to make companies in Canada responsible for deducting a withholding tax from dividends paid to non-Canadian shareholders, personal or corporate. In principle, the total tax paid on income generated in Canada should be the same whatever the residence of the shareholder. In practice, how

that tax is divided between Canadian and foreign treasuries is a matter for negotiation with the countries concerned. The ideal tax treaties would yield to Taxation Canada the same revenues as there would be, on balance, if no foreigners took income out of Canada and no Canadians brought income in. The practice, of course, may diverge considerably from the ideal.

It is important, though, that for countries with which no tax treaty is negotiated—notably those that act as tax havens and so cannot offer reciprocity—the rate of withholding tax should be equivalent to the personal tax rate generally paid by Canadian shareholders. Where there is no tax treaty, the burden can properly be put on the external shareholder, personal or corporate, to justify any claim that the withholding tax is higher than the tax Canadian residents would pay on the income.

Another provision requiring careful drafting is that legislation compelling companies to distribute all their income must contain a clear definition of income, on accounting principles that auditors can apply consistently. In particular, income must be struck after providing, fully but not excessively, for depreciation; or more precisely, for maintaining intact the real capital of the company with due allowance for the extent to which replacement cost is likely to exceed original cost, not only because of price increases but because it is often necessary technologically to adjust processes and equipment to keep in line with the state of the art. It is not always easy to distinguish maintenance in the full sense, as a legitimate charge against operations, from investment that should be charged to capital. These, however, are judgements that professionals are well paid to make, and managements rarely have an incentive to hoodwink them into long-term understatement of company earnings.

It will be more difficult to ensure the exclusion of expenditures that are not genuine necessities of the business. This is not, of course, a problem created by the proposed change in the tax system. Governments have struggled for a long time to define what ought to be included in the personal incomes of executives, not buried in business costs.

An issue of less social significance, but of great importance to an enterprising economy, concerns the purposes for which interest on borrowings is a proper cost of business. Certainly the reform should include correction of one of the more short-sighted errors ever made by a Canadian government: the decision in 1971 to allow a company to charge against its own income the costs of borrowing in order to acquire another company.

Of all the ways in which our financial system is biased in favour of the large established companies, and against small businesses and new companies, this is the most unfairly destructive of a genuine

market economy. It has been, of course, a powerful weapon for concentrating ownership and control, and particularly for the creation of conglomerates. New legislation should firmly embody the principle that a company is empowered to borrow only for the business of that company. This would be a major change in the way in which many business deals are now done, and once again I am not suggesting that the full impact should be delivered overnight. Careful transitional arrangements would be necessary.

Even after the transition, the determination of what borrowing is within the business of the company to which the interest is charged would involve difficult marginal cases. But that is hardly a change from the present situation in tax administration. While we all favour simplicity, it has to yield to the practical. There would be no point in suggesting reforms for company law and taxation that would put out of business all the lawyers and accountants and financial experts who live on the present complexities. The realistic objective is that they should march to the tune of a different drummer, that the system under which they work should be less concerned with the mere shuffling of paper about the ownership of existing businesses and more friendly to business enterprise and innovation. The changes in law and tax proposed would, I think, have that effect.

Sales tax

If we stop allowing companies to retain income instead of distributing it, governments have two main ways to tax: they can tax what people have; they can tax the things that people buy. For simplicity, I will label the second as consumption taxation, though it includes sales taxes on equipment and materials used only by companies in the process of production, but of course reflected in the prices of final products; it also includes customs and excise and user fees for services that government provides—water charges, for example, fees to use the facilities of national parks, airport charges added to the price of airline tickets.

The taxation of consumption is inherently regressive in the sense that, on the necessities that both consume, the poor person pays as much tax as the rich person. Nevertheless, the taxation of consumption is necessary. It is hallowed by familiarity. The use of graduated personal taxation to raise all the revenues required by the modern state would be far too sharp a change to be politically acceptable. The practical problem is to structure consumption taxes to be as economically efficient as possible and to keep them low enough for their regressive effect to be well offset by an acceptable degree of graduation in personal taxation.

It is now commonly understood that the system of consumption taxation we have had in Canada is highly unsatisfactory. The federal sales tax on manufactures is discriminatory. It penalises the consumption of goods, as opposed to services, and it penalises goods manufactured in Canada, as opposed to imports. There is no coordination of economic purpose between the federal tax and the jumble of administratively cumbersome taxes on retail sales at the provincial level.

At the time of writing it seems virtually certain that there will be federal-provincial agreement on a major reform. The present taxes will be replaced by one national sales tax embodying something at least of the value-added principle long adopted in the VAT of European tax regimes. That this would be more efficient in its economic effects, as well as administratively superior, is not in serious dispute. The main point of controversy is whether such a tax should be universal; it is not easy for politicians to ignore the populist argument against taxing food, children's clothing, prescription drugs and the like. Of "necessities", however, there is no end; once the door was opened, the pressure for exemptions would be expressed in continual lobbying and trouble for politicians and could in time undermine the effectiveness of the new tax. It would be far better to stick to the simplicity of universality, provided that we combat poverty by means of refundable tax credits and improved social programs.

Simplicity does not have to be carried too far, however. What is distressing about the discussion of sales tax is that it is taking place as if the Brundtland Commission had never reported on the environment and sustainable development. Even the most dedicated and sophisticated of environmentalists have failed to point out that discriminating rates of sales tax are the most direct and the most persuasive tool by which governments can translate fine words about the environment into action.

In recent years we have experienced an orgy of elaboration in packaging, of everything from groceries to compact discs, from household hardware to perfumes in spray cans. It is cheap; it makes products look more attractive; their qualities are harder for the consumer to assess before buying. But it involves heavy use of energy and materials that are largely non-renewable and it adds greatly to the costs of garbage that will be in land-fill sites for an indefinite time. Why do we not use the price mechanism to deal with this kind of externality, with a cost that is not incurred by the individual enterprise but weighs heavily on organized society? Why, in other words, should packaging materials not bear a heavy rate of reformed sales tax?

We have precedent enough in the case of gasoline. I am not suggesting that we have to get highly complicated, but it would not be

administratively very difficult to have three rates of sales tax. The highest, comparable perhaps to the present tax on gasoline, would apply to products that require a lot of non-renewable materials or energy, that are pollutants in their production processes, that are toxic or otherwise damaging to the environment in their use or disposal. The lowest rate would apply to products, such as clothing and most foods, that are or can be relatively labour-intensive and benign to the environment in production and use. A middle rate would avoid the difficulties of classifying everything into one or other extreme.

It is too late now to press realistically for this categorisation in the initial reform of sales tax. One may hope that growing concern about the environment will result in its adoption before the century is out.

Consumption taxes in the broad sense include, as was noted earlier, user fees as the means of financing some public services. They are a muddle. The principle on which some order might be brought to them is that fees should cover as much as is practicable of the costs of those services that some people use a great deal and others little or not at all. Airports are an example. So, to a somewhat lesser degree, are national parks. Urban sidewalks and rural roads are at the other extreme: government can use more indirect methods of recouping part of the cost, particularly of highways, from their commercial users, but a specific user tax on the citizen would be ridiculous in principle as well as impossible in practice.

One reason for suggesting a principle is to take up the controversial case of the mail service. It seems to me much more analogous to a road than to an airport or a national park, and I therefore cannot share the contemporary enthusiasm for making the post office pay its way. Certainly commercial users should not have as cheap a ride on the back of the public service as they at one time enjoyed. But the mails are primarily a general public service: they enable citizens to communicate with each other and to do their personal business, in writing—which is very different from the extension of the human voice by telephone. Frequent users can, probably do, pay the full cost of the services to them. But there is a considerable element of overhead cost if good service is to be available, as it should be, to everyone, whether in urban community or rural, in an old residential area or a new development. There is no precious virtue in requiring that user charges cover the whole cost. That some of it should be financed from general taxation is just as reasonable as the public financing of roads.

This is an illustration of a fundamental point. User fees and sales taxes are commonly thought of as taxes on consumption. So, in a sense, they are. But equally, they are taxes on economic activity. Their varying effects must be assessed not only in terms of

encouraging us to smoke less and, comparatively at least, clothe our children better. Account must also be taken of their varying effect on different kinds of production, on the use of materials and the pollution of the environment. For government, they are the convenient way to raise a great deal of money, provided their effects are offset by the personal tax structure. But the more they are used, the more important it is to be sensitive to their impact on the distribution and efficiency of economic activity.

Capital movement

It is the collective interest of nations to harmonise their tax systems closely enough to minimise movements of capital motivated by tax savings. We are far from that, and probably will long remain so. Nevertheless, thanks particularly to the European Community, leading industrial countries are increasingly interested in the relative impacts of different tax systems. Consideration of the UN tax on multinationals, suggested earlier, would strengthen this trend and perhaps the time will come when a government considering tax reforms will find it natural to discuss them beforehand with countries with which Canada does a good deal of business. The problems to which my proposals are addressed, for example, are by no means unique to Canada.

However, advantageous as harmonisation would be, the feasibility of the proposals does not depend upon it. The absence of harmonisation merely maintains difficulties that now exist. There is already some movement of capital from Canada to the United States and to smaller countries that provide tax havens. Critics will no doubt express the fear that the proposals, notably for comprehensive personal taxation and for the elimination of retained corporate income, would elevate capital movements into a major flight from Canada.

This is always the argument of last resort against economic and social change: that it will destroy business confidence; foreign investors will stop coming; investors already here, domestic and foreign, will pick up their money and go; the exchange rate will plunge; investment will dwindle; the intent of the reformers may be noble, but the actual effect of their machinations will be impoverishment.

This argument has not changed in my lifetime. It has been voiced, in corporate boardrooms and sometimes in faculties of business economics, against countless measures that are now comfortably absorbed into the fabric of our society. Nevertheless, and suspect though it is because it is often self-interested, the argument cannot be casually dismissed. Our kind of economy *does* require business

confidence. Business confidence *can* be destroyed. The question is how to distinguish real danger from conjuring of the bogey.

Business confidence can be destroyed by threats of large-scale nationalisation of private enterprises, by arbitrary use of government power in dealings with business, by large and continuing budget deficits, by severe inflation; in short, by direct attack and by uncertainty.

The proposals made here are not unfriendly to business. On the contrary, they would strengthen markets and widen the scope for enterprise. They would increase the returns of business to its shareholders. Admittedly, the tax paid on the part of that income that the shareholders did not previously receive, because it was retained by corporations, would be greater than the tax previously paid by corporations that were successful in avoiding it. But no one seriously supposes that the rides were going to remain so free anyway; conservative governments are busy clamping down on tax avoidance. And that apart, there is nothing in the proposals to hurt the Canadian investments of foreign corporations.

It is true that the proposals are hostile to large accumulations of individual wealth, made possible in the past by the absence of tax on inheritances and gifts as well as the low tax on capital gains and all the opportunities for tax avoidance. However, though at the moment Hong Kong purchasers of real estate for the sake of Canadian passports are conspicuous, very little of the foreign investment in Canadian industry has been made by people already rich coming here.

Therefore, if there is any substance to the fear of capital movements, it is that rich Canadians will take their money away. Real capital—land, natural resources, buildings, equipment—cannot fly. There may be a few factories from which equipment can be gutted and set up again in the Cayman Islands or wherever, but the cases are rare. There may be some specialised service activities that could be successfully conducted from a low-wage, low-tax country, but such opportunities would not be suddenly created by tax reform in Canada. There is something very wrong with existing enterprises if many such opportunities are now going begging.

What, then, does "capital flight" mean? There are two possibilities. One is that rich people will retain ownership of businesses in Canada but go to live elsewhere. If the move is to a tax haven, substantial withholding taxes will catch as much revenue from the refugees as they provide now, probably more. If the move is to the United States or other tax-treaty country, we will get less revenue than if the people stayed here after tax reform but it is unlikely to be less than they have been paying under the present system, with all its scope for tax avoidance.

Alternatively, the rich person may move and also sell his or her assets in Canada. If so, someone buys them. They may become more profitable businesses, thanks to lower capital charges. The Canadian economy is not the loser, nor at the time is Revenue Canada. It is true that down the road we may lose revenue that would have come from the taxation of inheritance; but again, that is not loss compared with the present tax system. It is true that the departed money will not be available for new investments in Canada. Much of it, however, is not used for that purpose anyway. It is more frequently used to buy existing assets—Simpson's, the Bay, the FP newspaper chain, to take the conspicuous example of Thomson. Canadians are not worse off if such acquisitions are diverted to U.S. retail business and newspapers.

The example, admittedly, does not clinch the case. One can speculate that, under the tax regime I am suggesting, we would have lost some of the financing that in recent years has gone into large real-estate developments in Toronto, Edmonton and Vancouver. That, however, would hardly be catastrophic. We might very well gain much from the dispersion of dividends into the hands of smaller investors, with the greater interest in innovation and new productive enterprise that the tax reforms would encourage.

To maintain and to strengthen business confidence does require, as I have suggested frequently already, that change should not be brusque. Implemented with that understanding, the reforms needed to invigorate the economy will achieve their purpose. The stimulus to enterprise will do enough good to enable us to take in our stride such temporary inconvenience as may arise from the movement of some money out of the country.

9.

Preventing Poverty

The safety net

There will be many poor always with us if our economy fails to provide enough employment opportunities. Full employment is the first requirement of social justice.

Obviously, the requirement is not only about the number of jobs. They must produce incomes above the poverty line. People must have the skills to do the jobs. Either the jobs must be where the people are or it must be practicable for people to move to where the jobs are. These are agenda items for the next chapter. Here I am concerned with measures to save from poverty those who, for various reasons permanent or temporary, cannot work, or whose earnings from work are below the level of support for the workless.

It has become common to criticise our provisions for social security as a jumble of measures, uncoordinated and at least somewhat inefficient. They have accumulated gradually as public opinion became sufficiently conscious of various needs to be willing, in the judgement of politicians, to be taxed to meet those needs. The responding measures have accumulated, moreover, in a federal state where the primary jurisdiction for social policy is that of provinces with large differences in fiscal capacity. National policies have had to be established either through specific constitutional amendments (unemployment insurance, pensions) or by use of the federal spending

power to provide partial financing of provincial programs that are roughly the same.

It is hard to see how the result could be anything but a jumble. Certainly better coordination is badly needed in some respects. However, while tidying is appealing, a comprehensive system is an idea whose time has not yet come.

I do not think that we can move quickly to the ideal sought by social reformers who would replace the present income supports by a guaranteed income system. If we had enough revenue to provide a sufficiently high guarantee, such a system could indeed be the fair and efficient way to prevent poverty without creating the traps that discourage employable people from working. But there is no merit in setting up the system, as the Macdonald Royal Commission proposed, with an inadequate guarantee level. For quite some years, I suspect, we will do better to maintain categorical programs for income support and maintenance, and indeed to extend them in ways that make them more efficient, while making increasing use of refundable tax credits to improve the supports and, by integration with the tax system, move gradually to a comprehensive income guarantee.

The following is therefore a spotty discussion, concentrated on what I believe to be priorities. Though at one time I was as involved as anyone in the creation of the Canada and Quebec Pension Plans, I have little now to say about the provision of retirement income. As was noted in the chapter on taxation, we should be less generous than we have been in the tax treatment of retirement savings by the relatively well-to-do. On the other hand, the trend towards better protection of private pensions against cost-of-living increases is welcome and should be encouraged. And there is urgent need to improve publicly-financed pensions for women, particularly for widows who have spent most of their time as housewives.

However, that requirement apart, it is fair to say that in the public provision for retirement we have already moved farther than in almost any other area of social need. Whereas twenty years ago the eldest were often the poorest members of extended families, it is now quite common for grandparents to be helping to support workless children and deprived grandchildren.

It is not indifference to the elderly to recognise that social priorities have changed. Young people have to be saved from growing up in poverty. The income of the working poor should be raised. Opportunities for integration into the mainstream of society, as well as immediate incomes, should be improved for the homeless and the disabled, for the many disadvantaged groups whose plight still shames our society. The social reforms of the first twenty-five years after the Second World War did reduce the incidence of poverty (relative to the general standard of living), but they were not enough to prevent a

reversal of this trend in the eighties. The most effective ways of renewing it should be high on our agenda for the nineties.

The working poor

Canada has a good system of unemployment insurance, for the purpose of unemployment insurance. It is perverted, however, by being used also for purposes that would be better served by other programs.

The purpose of unemployment insurance is to protect people who have been in fairly steady employment; if they are laid off, a good proportion of their income is maintained for a significant period. The present program, however, requires only a short period of work to qualify for benefit over a longer period. It thereby operates as a major program of regular income supplementation for seasonal workers. Inevitably, such a program also operates to encourage casual work. It is not only private employers in some activities who cooperate in shuffling workers according to their eligibility for UI. Some provincial governments shape projects to provide eligibility for as many people as possible. Even some of the federal government's own job-creation designs show evidence of the influence. In some areas and for some kinds of work, skillful exploitation of UI has become a way of life.

The objection to this does not turn on whether the people who benefit require it, whether much of the money would otherwise have to be provided, under the present structure, as social assistance. The objection is that unemployment insurance is degraded for the people for whom it is properly intended: those who work and contribute for considerable periods and should thereby be rightfully entitled, if they become unemployed, to a high level of income maintenance, for quite a prolonged period if their unemployment is unavoidably long-term.

It has often been suggested that UI should be reformed by excluding at least some of the larger categories of seasonal workers and providing instead some special program to assist them. Indeed, this was said to be the government's intent, at least for fisherman, when UI was greatly reformed in 1971. It has not been done, for good reason.

Many seasonal workers are poor. Some, however, earn annual incomes considerably larger both than people who work all year at low wages and than those with only part-time work or in sporadic employment. It would be grossly unfair to introduce a special program for seasonal workers only. The need for supplementary income is the need of the working poor as a whole.

If, though only if, such a supplementary program is provided, it will be practicable to return unemployment insurance to its purpose. This would mean increasing the number of weeks of contribution required to establish eligibility for benefits and reducing the benefit

period to which a claimant is entitled by virtue of the period for which he or she has contributed. It would then be practicable to improve the degree to which the income of an unemployed person is maintained, both by lengthening the maximum benefit period and by raising the ratio of the benefit to the earnings on which contributions have been paid. That was two-thirds in 1971, but in 1979 it was reduced—understandably enough, given the other features of the program at that time—to 60 percent. It should at least be restored to the former level.

These improvements in income maintenance would be facilitated by a more technical change. UI at present operates with uniform contribution rates. Operations in which workers are rarely laid off therefore subsidize those with high rates of labour turnover. It would be fairer to adopt insurance principles of experience rating: that is, UI premiums would be higher for firms that discharge workers more frequently. An important effect would be to encourage work-sharing, rather than laying off part of the workforce, as a way of dealing with slack business periods.

A practicable program for topping up the incomes of the working poor can best be structured, I suggest, from two components. A wage is a wage: it cannot vary with the number of a worker's dependents. But whether it provides comfort or poverty does. The government of Canada therefore judged well when, more than forty years ago, it chose family allowances as its second measure, after unemployment insurance, in building the welfare state of which the concept took hold in the Second World War.

When the family allowance was introduced it was about 40 percent of the subsistence cost for a child. It has been eroded. It is now little more than ten percent. And that will decline, because under present legislation it is not adjusted to the first three percent a year of increase in the cost of living. Present government policy is, in other words, gradually to destroy the family allowance by attrition.

To attack poverty, we should move in the opposite direction. The family allowance should be restored to its original importance. There is, it is true, one alternative. Increases in the refundable child tax credit can be arranged to have much the same effect as larger family allowances. There is no good reason, however, to prefer complication of tax returns to the familiar allowance cheques, which have the particular merit of being made out, normally, to the child's mother. The universality of family allowances makes for administrative simplicity beside being appealing in principle, as long of course as a graduated personal tax scales down the net benefit at higher income levels.

To raise a child in a Canadian household above the poverty level now costs about $250 a month. How far and how fast the family

allowance can be raised, to make it again a major countervail to poverty, will no doubt depend on other budgetary considerations, but I would give high priority to moving in good-sized steps to $125 a month (in 1989 dollar equivalent) for the first two children of a family. Additional children involve, of course, somewhat lower marginal costs, and a case for paying the same allowance per child to large families would have to be based on natalist grounds.

Refundable tax credits have a different role to play in relieving poverty. There are, obviously, many working poor who do not benefit from family allowances. Some wage incomes will not save one person from poverty; many are insufficient for the worker with an adult dependent. The best corrective, it seems to me, is to make the basic tax credit, rightly introduced in 1988 in place of the old personal exemptions, refundable in the same way that the existing child tax credit and sales tax credit are.

Besides becoming refundable, the basic credit requires substantial increase if poverty is to be overcome. It would be superfluous to try to calculate here what amount would be initially realistic in the context of the broadened tax base and other reforms proposed earlier. The aim would be to increase the refundable credit progressively, as the state of national finances permits, to evolve in time to a genuine guaranteed annual income. As that process advanced , transfers under income maintenance and support programs could be scaled down. In the meantime the graduated personal tax and the increasing refundable credit can be structured to avoid creating discouragements to extra earnings. This is, of course, essential. In helping the working poor we must not create for them the poverty trap in which some recipients of social assistance are now caught. The combined effect of reductions in assistance and taxation is that earnings yield little or no income. The disincentive to work is far greater than any created by the marginal tax rates on higher incomes.

This program for the working poor has been suggested before turning, in the next section, to social assistance. Social assistance is a program of last resort. The double program—increased family allowances and the basic, refundable tax credit—should be designed to minimise any necessity for the working poor to have to turn to that resort.

Social assistance

In one respect social assistance is like unemployment insurance. It is a program required to do too much. A primary step in its improvement is to establish distinct programs for those who ought not to be "on welfare" at all.

The first such group consists of many, though of course not all, single parents. While they have a young child or children, day care is essential to their employment. The need for a large extension of day care services is now generally accepted, and I shall make some further comment on them later. The point here is that the full cost of child care should be reimbursable for the single parent in employment or in training. Child care in this sense covers not only conventional day care but also other services that may be necessary to fit the working hours of the parent.

The full cost of child care for the working single parent should be treated as income to the recipient. This is the principle that I have previously discussed in the case of medicare, and I would apply it to all such services. The public treasury is thus reimbursed to the extent that is appropriate to the finances of the individual, by the general standard that government applies through graduated personal tax.

The availability of day care will not, of course, readily move all single parents into employment. Counselling will often be a necessary first step. In the case particularly of young parents, who will often lack confidence about work, there may have to be encouragement of a kind close to prodding. Training will often be necessary. Then, and in the early stages of employment, transitional arrangements providing some degree of continuing social assistance may well be required.

Especially in areas where employment is not buoyant, by no means all the single parents who embark on such an opportunity program will be freed from dependency. It is, however, greatly in the public interest that the effort be made, in all possible cases and with as skilled a combination of firmness and understanding as the resources of social work staff make possible.

In the meeting places of the comfortable, "welfare" is often talked about as the means whereby no-gooders who could be working contrive to live indefinitely out of the pockets of honest taxpayers. The reality, of course, is very different. Most social assistance cases are not prolonged. They include people with a temporary disability preventing them from working. However, while in total about a third of all the people receiving social assistance are disabled, most of the disabilities are permanent. Disability is the main reason for long-term dependency.

The various income maintenance provisions, public and private, are a jumble through which many people fall. Though it varies somewhat from province to province, compensation for injury at work is generally good. Indeed, because the benefits are exempt from tax—an indefensible inconsistency—to be hurt can sometimes be financially profitable.

These few cases are in stark contrast to the enormously larger number where it is disastrous. For accidents outside the workplace, it

often seems that more money is spent on determining where the liability lies than on providing compensation, under any of the complex of insurance provisions, to the victim. Compensation for work-induced illness is much less satisfactory than for injuries. Apart from private plans, sickness insurance is provided only through unemployment insurance, and that for a limited period. The most general disability benefits are those provided under the Canada Pension Plan, but they are small and of no help at all for what may be the large costs of the disability of a family member outside the workforce.

And so on. The effect is that the only support for many disabled people is social assistance—needs-tested, conditional on the liquidation of many assets, sometimes in effect forcing permanent dependency as a result of a disability that was not inherently long-term.

The cure is not to be found in yet more specific programs and further multiplication of disputes about liability. It is to absorb all or most of the existing programs into a comprehensive public plan. Many committees and task forces have considered this. Not surprisingly in a field where there are strong interests in the status quo of litigation and private insurance, the conclusions tend to be indecisive. A few individuals have offered more forthright suggestions.

The bar to action is lack of political will, compounded by the complications of federal-provincial jurisdiction. The disabled are not a coherent political force. They might be strengthened if it were more generally realised that the disability case-load is the weight that hampers reforms in social assistance. If it were taken off, through a broad insurance plan providing equitable income supports financed by a mix of individual and employer contributions and provincial and federal government revenues, then it would be practicable to reorganize social assistance.

The total cost of comprehensive disability insurance would be heavy. Much of it would, of course, be a diversion from existing programs. Employers already pay, on an experience-rated basis, for the compensation of workplace injuries and some pay heavily for work-induced illness. Employers and employees both contribute through the element of sickness insurance in UI and the disability benefits of CPP; some also contribute to other disability insurance. Taxpayers contribute heavily, through social assistance. Even after all such existing sources are taken into account, however, the additional cost of an adequate comprehensive program would be heavy. It would be unwise to levy much of it in the form of increased payroll taxes—which is what compulsory "contributions" from employer and employee are.

The proposal therefore cannot be lightly made. It is a proposal for substantial additional expenditures out of general taxation. The case for it is, simply, that an assurance of frugal comfort for those of its

members who are disabled must be one of the highest priorities of a humane society.

Moreover, a comprehensive program for the disabled would make it possible to confine means-tested social assistance—"welfare" in the narrower sense—to being genuinely the support of last resort. It would be directed to the special cases and the hard cases. There would be a much better chance of achieving the adequacy and the flexibility, and the close cooperation with voluntary agencies, required in such cases.

It should be noted that social assistance was much improved by the broad federal cost-sharing that the Canadian Assistance Plan provided twenty years ago. There is no reason to depart from the basic principles of needs-testing then established. But assistance scales have become seriously inadequate, in some provinces especially. While the quality of social work administration has improved, financial stringency keeps it far from adequate to all the problems of helping people out of dependency. And the resulting rigidities mean that, as was noted in the preceding section, there are many poverty traps to hold people in dependence.

The ten provincial programs, each diversified within itself by varying elements of municipal administration, call for a multitude of prescriptions for detailed reforms. I do not have the experience to offer them. The underlying policy point, however, is clear. It is to mount specific programs directed to getting as many as possible of the disabled and the single parents out of the social assistance net. To improve that safety, for the many fewer for whom there is nothing else, would then be a more manageable task.

Other caring

Poverty does not have to be, but anyone seeking to eradicate it must be appalled by the program complexity that the complexity of contemporary society makes necessary. In this section I shall discuss briefly three of the remaining requirements, before going on in the next chapter to the related issues of education and training, mobility and area development, and the role of future immigrants.

Poverty is exacerbated by shortages of accommodation at affordable rents. Those shortages are also a significant cause of economic inefficiency: since they are generally worst where economic opportunities are best, they impede the movement of workers in response to job opportunities.

Such help as the poor are now getting towards paying for accommodation is provided through social assistance. In themselves, therefore, the proposals of the previous section, narrowing the role of social assistance, would make the housing problem even worse. Accommodation of even a barely acceptable standard may be well

outside the financial reach of many disabled people, single parent families and others among the working poor.

A broader program of housing allowances is therefore necessary. But there is a dilemma. If the program is to have any significant effect, increasing demand enough to stimulate an increased supply of acceptable low-cost accommodation, the allowances must be fairly large and they must be provided to quite a lot of people. On the other hand, allowances are bound to be discriminatory: some people need them desperately, some in otherwise similar circumstances are fortunate enough to own a home or hold existing tenancy of relatively low-cost but acceptable accommodation. It is therefore necessary that the allowances be provided by careful assessment of individual needs, not entitlement. Otherwise the program will be wastefully expensive. But discriminatory programs are not popular. They are difficult to administer. The best of administration will not avoid all anomalies and consequent resentments.

Yet we cannot do nothing. We cannot ignore the homeless and all the children growing up in appallingly sub-standard housing. Experience has amply proved that rent control is not a corrective. It prevents some abuse, but it does not cure deprivation and it reduces the supply of accommodation. Yet to let the market work is not enough. Only after an interminable time, if at all, will the benefits trickle down to the most needy. There have to be stronger federal-provincial programs to facilitate the construction of low-cost accommodation by non-profit organizations and, in areas of greatest shortage, by municipalities. Low-cost need not mean subsidization. It means modest accommodation at rents just sufficient to cover costs. The ill consequences of subsidizing blocks of buildings are well known. It is better to subsidize those of the tenants who cannot afford even the low rents.

Despite the difficulties, therefore, housing allowances are a necessary program. I do not pretend to the expertise to offer a detailed prescription and thereby to suggest the scale of allowance that merits higher priority than is now given to housing needs within the social assistance net.

The next area for discussion is less difficult. I have already suggested the provision of child care to help single parents to work their way out of dependency. This will have to be fitted within the greatly enlarged day care services to which all parties are now committed.

Some of the people who need good day care services can afford them. To finance the whole program from increased taxes would be to set up inequitable cross-subsidies among the relatively well-to-do who would be paying much of the taxation. Obviously, however, there is no sharp line dividing the single parents, for whom free child care is the

prerequisite for employment, from all the rest. If both are in low-wage employment, two working parents may not produce a family income above the poverty range. Whatever the details of our developing day care services, therefore, payment for them should be integrated with the structure of graduated tax rates, tax credits and family allowance so that the net assistance provided is fairly related to income levels.

While day care has lately become a more organized cause, another kind of caring service is of at least equal importance in combatting poverty. That is the provision of home care services to the handicapped, the disabled, the infirm, and occasionally to others in time of family crisis. Visits by a nurse, sometimes by a physiotherapist or other paramedical personnel, help once a week in cleaning the house, in more extreme cases help once a day by preparing or bringing a meal—such services can make all the difference between a deprived and unsafe life and a fairly comfortable one. For many, they can make the difference between staying at home and having to be in a hospital or in some institution. In these cases, and even if an occasional doctor's visit is also required, home care may provide a considerable saving in cost as well as greater happiness.

If such service is organized, primarily for long-term cases, it can also meet needs that are temporary but pressing. A mother with several young children has to go to hospital for several weeks; the father cannot take the time off work; and in a city where employment is high, reliable help to look after the children may be difficult to find even if it can be afforded. An organized home care service can cope with such crises.

Some of the service could and would be paid for at cost. For the handicapped and infirm, however, it should be treated as a part of medicare. On the joint authority of the doctor and of the qualified social worker who first visited the home to arrange the details of the service required, home care would be provided "free" but its cost, up to (say) ten percent of the recipient's income, would be taxable. In this way, as in the general proposal for medicare made earlier, people poor enough to be paying no tax would receive entirely free service but others would make a contribution appropriate to their income.

The cost savings that can be achieved by home care, when it is an alternative to institutionalisation, will become increasingly important as people live longer and the proportion of aged to working population rises. In the long run, particularly, and with the controls suggested, home care is not one of the expensive items of the anti-poverty agenda. There are, however, other items. There are, for example, gaps to be filled in medicare—many dental services, and prescription drugs. The latter, of course, is a service badly needed by poor people but particularly exposed to being made unnecessarily expensive by abuse.

The measures that have been discussed in this chapter are those to support people whose incomes otherwise are a social injustice. I urge that injustice must be corrected, but I am not making light of the tax costs of the programs required. They can be effectively implemented only in determined, but steady progression. The pace we can achieve will depend in part on the measures we also take to make it possible for more people to earn higher incomes. Those are the subject of the next chapter.

10.

Scope and Space for People

This chapter is about the most important of resources and the one of which Canada does not have enough: people. It makes suggestions about training for work and about post-secondary education; about mobility but also about conserving the communities where people now are; and about bringing in young people to offset our declining fertility.

Exclusions

The suggested programs apply equally to the sexes. I would emphasize that this approach is not intended to deny the need for special measures to correct the inequalities to which women have been so long subject. Nor is it to close my eyes to the evils of racial discrimination and the need for affirmative offsets. If is simply that on these matters it is even more true that on most that other people have expressed better than I could views that I share.

For a similar reason I do not prescribe how our society can best be purged of the injustices done to the peoples who were here before Europeans came. For the Inuit, who have not had to cope with white people so much as have the Indian and Métis people, the direction is clear. It should not be difficult to establish the equivalent of provincial status and government for the vast eastern part of the North—Nunavut—in which Inuit people are the majority. It is necessary for

realism to say "equivalent of" because, quite apart from the constitutional rigidity that is now so large an obstacle to the creation of new provinces, no financial provisions possible in the federal-provincial relation could cover the resources that Nunavut will need for many years.

This is a problem more of form than of substance. There is no reason why Nunavut should not have self-government in the same measure as, say, Prince Edward Island. And the same can be said of the other part of the North West Territories and the Yukon, though in those cases the greater number of white people means that justice for their original peoples requires more elaborate provisions than those within Nunavut.

It must be clear that our European disrespect for the original peoples has not been only of their material welfare. Even more, and more lastingly, it is of their cultures. The rent in our society can be mended only if we can genuinely remove all grounds for believing that the white man's way to do it is to integrate Indian and Métis people, as an under-class, into the dominant society. Certainly the material wrong has to be corrected: native peoples have to be ceded entitlement to resources, in a form no doubt varying from community to community, that will give scope for work and self-respect. With that, however, the paternalistic ward-ship of the federal government must give place to a large measure of self-government. The central difficulty, obviously, is to reconcile that with the role of the provinces in our federalism; at least solutions are now being sought. I am not equipped to make a distinctive contribution.

It is also in part for this reason that I say nothing about elementary and secondary education. The second and compelling reason is that this book is concerned with matters in provincial jurisdiction only when there already is, or when I believe I can suggest, an effective federal role in them. It is tempting to search for such a role in education. We are not doing right by our children. For some of the brightest, that may not matter much; they will largely educate themselves anyway. The majority leave school far less prepared than they could be to make effective use of their capabilities, whether it be in starting work or learning occupational skills or going to university.

To do better we need, in general, more teachers spending more time challenged to teach better curricula more zestfully to smaller classes. It may be that the only way to start such reforms is the path that is being experimented with in some countries—to shake up an encrusted system by introducing elements of consumer choice into public schooling. But for us that would have to come province-by-province. Whether it is the best route or whether there are others, it seems to me that in any event an attempt at a federal initiative at this stage would do harm not good.

My subject, therefore, is people after they leave secondary school.

Continuing education

Most of what this section is about is usually labelled training. It includes, however, some learning that is broader than that. It includes, despite the jurisdictional problem, giving adults a second chance to catch up to the normal educational standards of high school graduation.

My proposal is that this "training" should be largely privatized. A little history may help to explain why.

The present phase of acceleration in technological change began fifty years ago. Fairly soon there was growing realisation that it would force rapid changes in methods of work. Some old skills would become redundant, new skills would be required and many of them would call for better understanding of words and figures and for more scientific knowledge. The adaptability of the workforce, continuous learning in order to be able to take new jobs, would become prerequisites for economic growth and full employment. Those were the concerns of the federal government. It took the initiative in what might have been called continuing education but was more tactfully labelled, initially, technical and vocational training and was later re-labelled, more elegantly, occupational training.

The federal spending power was used to stimulate, by generous cost-sharing, provincial provision of this continuing education for people above normal school age. The device had an inevitable inefficiency. Rich provinces, which could easily afford their modest share of the cost, took large advantage of the program. Poorer provinces did not. But it was in the poorer provinces that there were particularly large proportions of people who had left school early, whose only work experience was in occupations now declining, who were now marginally employed or unemployed or clearly faced with unemployment soon.

In 1966 therefore, the federal government changed its approach. It would deal directly with the adults who required "training", even though in many cases that involved up-grading of basic education as a preliminary to learning new job skills. Constitutionally, it could not provide the service itself. But it could turn the educational need into an effective market demand by purchasing training for people whose employment prospects would thereby be substantially improved. To do so it would not only pay for the training itself but would also pay directly to the trainees allowances greater than, and quite separate from, unemployment insurance benefits. It would thus gradually establish the understanding that to be in training was not a way of being unemployed, as it was generally seen; in the new economy, with

its requirements for adjustment and adaptability, periods of relearning should be seen as natural phases in a normal working lifetime.

The original federal intent was that a good deal of this service would be purchased from private institutions and, for specific skills and work experience, from operating companies. This would provide healthy competition with departments of education geared for schooling for young people. For them adult education or training was a sideshow; they had little experience of the different teaching methods most effective for adults and little knowledge of the world of work as the basis for designing practical courses.

But those provincial departments, especially in the richer provinces, were furious about the change in federal policy, removing control from them, and potentially, at least, reducing their role relative to that of the private sector. The outcome of the dispute was the only degree of compromise that was compatible with the federal government's determination to stick to the main thrust of its policy. The provincial departments were somewhat mollified by being given a guarantee that, in effect, most of the service would for a long time be purchased from them.

A long time, however, has now passed. The mollification was unavoidable at the time. (The reader should be warned that this may be a prejudiced judgement, since I was much involved.) But attitudes change. It is an interesting example of the power of bureaucracies that there has nevertheless been only a modest shift of training towards the private sector.

In part, at least, that is because the rising unemployment of the seventies and early eighties took the heart out of the drive for adult education and training. There is not much incentive to qualify for non-existent jobs. Because of unemployment and because of inadequacies in the courses provided by the provinces, some of the expenditure on adult occupational training has been ineffective. There is no doubt, however, that we need more of it if our economy is to be successful. Requirements for adjustments, for changing jobs, for new skills, will be stronger than ever in the 1990s. They will be even greater if policies for higher employment are effective.

The time is therefore now opportune for privatization. I can think of no area of government activity where purchase of services from the private sector, rather than their direct provisions by government departments, is more likely to be cost-effective.

I am not, of course, referring to training for particular jobs in particular companies. There is normally no reason why that should be publicly financed. Much skill training, however, is not specific to a particular company; in creates no particular likelihood that the company that provides on-the-job training will be repaid in continuing service from the trained worker as a permanent employee. Skills

training of this kind has to be publicly financed but there is no dispute that, to the extent that it requires actual work experience, it should be provided in the private sector or in government departments—of forestry or transportation or whatever—that have some comparable operating responsibilities.

The change that I am proposing is in the broader kinds of upgrading and training that are provided in institutional settings. Privatization means that operating companies and private educational institutions, expanded or newly created for the purpose, should be invited to bid to provide courses that hitherto have been almost exclusively the preserve of provincial schools and institutes, and to offer proposals for innovative programs.

Persuasion would be required to avert provincial attempts to interfere with the change. In the present mood, that should not be too difficult. Arm-twisting apart, it would be fair to point out that private suppliers would not have the permanent staff commitments that result in a course in meat-cutting being continued long after there is a glut of meat-cutters, or in a new course being started with an ill-qualified instructor because he or she is on the departmental staff and has to have something to do.

The case for privatization is four-fold: freedom from the school-oriented educational establishment means that curricula and teaching methods could be related more directly to the attitudes and capabilities of adults; there would be a closer understanding of the shifts in job requirements on the labour market; there would be less staff rigidity to hamper responses to such shifts; and competition would compel at least somewhat more concern to hold down costs than there now is.

The case is strong, and politically compelling. Provincial departments of education will not like it, but senior officials do not man barricades against political pressures.

The full benefits of privatization will be achieved only if the counsellors in Canada Employment Centres are genuinely flexible in choosing courses to fit the needs of people whose employment prospects will be best improved thereby. To take an extreme example: in the modern world of work, it is quite possible that a computer specialist working from home will give a few trainees better instruction in software programming than they would get in a more formal setting in either a private or a public institution.

There are, of course, limits to flexibility in the use of public funds. The Department of Employment and Immigration has to keep a firm, final say on who is eligible, on the basis of probable improvement of employment prospects, for what kind of training. And it has to be competent in evaluating the quality of training courses offered from any source. But such requirements are equally applicable now. The difference would be simply that, instead of the present fairly rigid

presumption that training is provided in provincial institutions, there would be the competition of private contractors with the incentive to do better.

This kind of privatization of service does not mean that the strategy of training can be turned over to the private sector. Markets are rarely long-sighted. There would continue to be need for strong committees—representative of local opinion in each labour-market area, as well as of provincial and federal departments and of employers—to act as forums for assessing the employment opportunities to which training programs should be designed to respond.

It would then remain to be seen how private enterprise performs in response to the government-financed demand for particular programs of adult education and training. It would be surprising as well as disappointing if, for most if not necessarily all of the required services, better results were not obtained. If they were not, even the most devout champions of privatization would have to suspend belief.

The Universities

Taxpayers spend billions of dollars to provide university education to less than one in seven of Canadians in the main age group, 18 to 24; another one in about ten is in community colleges or similar post-secondary institutions. The students are mostly from families with incomes significantly above average. Very few young people who grow up in poor families get university education. Few children of rich families do not. Universities are essentially public in their financing, essentially elitist in the social composition of their student bodies.

This is the outcome of financial arrangements that seem incapable of rational explanation. Most of the income of universities and colleges comes from provincial governments. Most of it—in some provinces, all of it—is money that the provinces have in virtue of federal-provincial tax and transfer arrangements that have evolved from what was originally a program of providing a dollar of federal tax money to match each dollar that provinces spent on post-secondary institutions. However, since the financing system never has given Ottawa any say in the provinces' policies with regard to post-secondary education, how far their financing should be regarded as federal and how far provincial is an arcane point of interest only to the warriors of federal-provincial controversies.

What is lost in the confusion is equality of opportunity. Taxpayers provide most of the cost of university education, but there is a remaining 20 percent or so that universities require in fees from students. Those fees, in conjunction with living and other student costs, are more than most families can provide. There are

scholarships; there are opportunities for vacation jobs and part-time work during term; there are student loans. But scholarships are few and rarely cover more than a fraction of educational costs. Opportunities to work are erratic and the jobs are mostly too low-paid to do much for the student who is putting sufficient energy into being a student. Loans are a considerable help to those who have other resources, but they create obligations that poorer families are sensibly reluctant to incur, particularly now that a degree is no longer the certain route to satisfactory employment that it appeared to be when graduates were fewer.

The outcome is that taxpayers pay most of the cost of university for a good many students of modest ability who are there because, at the income level of their parents, it is the place to spend their late teens and early twenties, not because the studies are crucial to their subsequent lives. On the outside are other young people whose lives would be more useful and satisfactory if they could go to university at the age of eighteen or so, but for whom the taxpayers' financing of the universities is irrelevant; their share of the total cost is too formidable.

The system is perverse. There is a better way. It depends, in my view, on distinguishing the two functions of universities. One is education; at the university level, mental abilities having been honed at school, it can be thought of as the passing on of existing understanding and knowledge. The other is research: the expansion of understanding and knowledge. Some research is best done in specialised institutions. But much flourishes best in the inter-disciplinary context of the university.

The public interest requires substantial financing of research from taxes. For that purpose, government should continue to provide funds directly to universities—more indeed than now—as well as to specialist institutes. What I am about to say in no way qualifies this.

Education, however, is different. It would be better done if government did not pay a dollar directly to the universities for the education of students. All the costs—the time of professors in their capacity as teachers, all the operating costs involved in class-rooms, libraries, labs and the rest—should be charged to students as fees. The taxpayers' billions would go not into grants to universities but into scholarships for students.

Eligibility for scholarships would be determined by criteria worked out by the universities and provincial departments of education which would administer the schools' provision of data on a consistent basis across each province. The standards would have to be higher than the present admission requirements of most universities. The purpose is to open them to able students who now cannot afford to come, not to bring about a net increase in the number of university students. The eligibility of students for scholarships to community

colleges and other post-secondary institutions would be somewhat different than for universities; many students would be sensible, given their career interests, to choose a college or technological program instead of an academic one.

The scholarships should cover not only full fees but also living, travel and other student costs. There need be no fussy administration to determine exact amounts. Up to some modestly adequate maximum, the student could be allowed to draw what he or she needed. The best control would be a tight recovery system. As with other programs, this can best be made fair and effective through taxation. People who had received scholarships could be subject to a surtax, a percentage addition to the tax they would otherwise pay. The percentage might be calculated so that full repayment of a scholarship of the ceiling amount would normally be obtained in, say, ten years. People who had drawn less than the maximum, or whose education was followed by earnings larger than the average of graduates, would be rid of the surtax sooner. Those who were less successful, or whose deliberate career choice was a low-paying occupation, would have a longer time to return the money that taxpayers in general had expended on their post-secondary education.

There would, of course, be no compulsion on students to saddle themselves with future surtax if they have other means of meeting part or all of their expenses. And universities cannot be denied the right to take, if they choose, students who are entirely privately financed on admission requirements below the scholarship standard.

The recovery system would make it practicable to extend the scholarships to graduate studies, provided that the universities established consistent criteria for the awarding of scholarships in such programs. Also, there would be no need to discriminate according to age. Mature students who satisfied the criteria would be as eligible as young students for both undergraduate and graduate scholarships, provided there was a likely prospect of their subsequently paying enough surtax to discharge the scholarship amount.

The culture of our federal-provincial relationships makes it realistic to suppose that provincial consent to such a program would depend on scholarships being available in proportion to provincial populations. It would be important, however, that this rule relate to the home residence of the students, not to the location of the institutions they attend. An Ontarian should be free to use a scholarship to go to the University of Alberta, if it has a better faculty in his or her subject. In this respect, academe would benefit from a little more breath of the market.

A university should be a community of scholars, but that can all too easily mean the closed community of professors rather than the whole body of the university. Direct funding of the institution

encourages the tendency for it to be somewhat insensitive to the needs of students whose fees are such a marginal contribution to its resources. Scholarships, in contrast, would enable bright students, voting with their feet, to encourage the faculties and campuses that serve students well instead of regarding them as the crosses that professors have to bear.

In sum, it seems to me that scholarship financing would help the universities to be livelier and more effective. The quality of education would be improved. Above all, the students best able to use post-secondary education, to their own and the nation's benefit, would have more equal opportunities if the support of the taxpayers were directed to people instead of to institutions.

Mobility

Canadians have always moved a good deal, on balance westward. More rapid economic change is likely to call for more movement, if not so much between regions, certainly within them.

A public policy to assist mobility is needed because many of the people who would benefit most, if they were suddenly and miraculously established and employed in a new location, are the people for whom the barriers to movement are most formidable. This is especially true for those in areas where employment has greatly declined.

People often manage on low incomes because their housing costs are very small. Family homes are free of mortgage, if they ever had any. Maintenance and repairs costs almost nothing; if you cannot do the work yourself, relatives and neighbours will, in unspoken exchange for other favours. But in an area of declining employment the sales value of the homes is negligible.

There is no way a family in these circumstances can initially handle, in addition to other costs of moving, the enormous extra burden of housing expense in communities such as Toronto. Quite apart from preference for staying in a familiar community, with all the friendly support system of a small society, it makes no financial sense to move unless the resources to get re-established are greater, and the assurance of permanence in a well-paid job is stronger, than is often the case. It is better to stay poor where you are, wait and hope.

Recognition of such problems led the federal government to initiate a program of mobility grants as long ago as 1965. It has remained small and little used. One reason is that for most of the intervening period there has been too much unemployment for people to make long-distance moves with confidence. This has reinforced bureaucratic caution in applying an administratively difficult program. Such caution, however, usually reflects weakness of political

will. Politicians in, say, New Brunswick, naturally have no enthusiasm for federal spending that would help to take away some of their constituents, while politicians in, say, Toronto, have no particular interest in the arrival of newcomers.

Two facts, however, remain. The Canadian economy is going to have to make more adjustments. Some industries will decline, not only in the regions where unemployment has long been high. If politicians mean what they almost all join business people and economists in saying—that rather than trying to hang on to old occupations, we must make the adjustment to different ones—there will have to be more geographic mobility than some of the affected workers can handle without assistance.

Particularly in the wake of the trade agreement for which the present government has claimed so much, but which is bound to be held at least partially responsible for much of the industrial restructuring that will close a good many plants in some areas, it will be as politically impossible as it would be unfair to require the affected workers to bear all the burdens of adjustment. If for many new employment is in a new location, as it will be, an extended program of mobility assistance will be essential.

The new needs will be, for the most part, moves within the industrial heartland, within Ontario and western Quebec. The second fact, however, is that a more active program of mobility assistance cannot be geographically limited. Attitudes in areas of persistently low employment are somewhat schizophrenic. Rightly, people in the Atlantic region reject the view common among economists and others in central Canada, that *the* solution to the region's problems is continued out-migration. A program with that deliberate purpose is not only politically unthinkable; its economic and social effects would be disastrous.

On the other hand, there is a strong will in Atlantic Canada not to be excluded from any benefits that other parts of the country have. If there is mobility assistance for, say, displaced textile workers in Quebec, there will be displaced steel workers in Cape Breton to whom the same assistance must be available. Whether many can and will take advantage of the program to make successful moves is not the point. The point is that mobility assistance, as a major component of policies to cope with industrial adjustment, cannot be limited to the new problems that arise from the trade agreement or anything else. It must be available for old problems too. Once mobility assistance is accepted as a tool for serious use, as it now must be, it has to be a general program—on one condition.

Community conservation

The condition is that mobility is not the tool of only resort.

When a community loses a major source of its employment some people are bound to move away. In the case of some one-industry towns—especially of mining communities in remote areas—it is usually inevitable that virtually all will move. That, indeed, is the rule of the game that most understand when they go to such places, though sometimes the closure comes cruelly soon, before the relatively high incomes of such a community have been earned for long enough to justify the personal and social investment in them. These are the exceptional cases, for which a public policy of mobility assistance, and nothing else, may be appropriate.

It is not appropriate for longer-established communities. The social costs of uprooting them are too great. The agonies of prolonged attrition, which is bound in practice to be the experience, are too painful for the old and too destructive of the futures of the young. The externalities of such industrial adjustments cannot fairly be thrust entirely on the people directly affected. In a civilized society the burden must be spread. And the first way to do so is to create new jobs in the community, to the extent that is practicable. It is to take advantage of resources of the area that have hitherto been under-utilized but could provide employment that would moderate, if not arrest, the attrition of the community.

Such measures are usually put under the heading of regional development. It is something of a weasel phrase. The objective would be more accurately stated as community conservation. Development is the means. It is not the kind that still most readily catches the imagination in a nation created by comparatively recent settlement, the kind that floods sparse regions with new people. Community conservation calls for the identification and utilization of economic opportunities hitherto neglected in regions already at least as populated as they are likely to be. In the nature of things, the probability is that most of such opportunities as are real will be individually small; they are the most likely to have been neglected.

As with all good causes, many foolishnesses, if not atrocities, have been committed in the name of regional development. Most are the consequences of the over-enthusiasm, natural enough given the magnitude of unemployment and under-employment in eastern Canada, for big projects that will do great good if they work. The failure rate has been high enough to give regional development a bad name. Very many people besides classical economists think that the money spent on it since the fifties, by provincial and federal governments has been pointless; the disparities between the Atlantic region and the rest of Canada seem to have been little changed.

A true benefit-cost evaluation, of course, would have to measure how much more the disparities would have grown if there had been different public policies or none. The conclusion might be fairly favourable, but it would not be much consolation for the continuing fact of great locational inequality; some Canadians are effectively locked into situations in which they have far less favourable opportunities than most of their compatriots.

The most comprehensive effort to correct this spluttered briefly twenty years ago, when the Department of Regional Economic Expansion was created. It was born of the conditions of the fifties and sixties, when Canada west of Trois-Rivières was most of the time close to full employment and attracting substantial in-migration, while Canada east of Trois-Rivières experienced persistent unemployment and under-employment. It was reasonable to think that in these conditions enough industrial development to make a significant improvement in regional employment could be steered to the east where workers were plentiful, not scarce; the gain to the economy as a whole would far outweigh the public cost of the necessary incentives.

It might have been so, but the attempt came too late. It was barely underway before conditions changed, before unemployment in the country as a whole rose to what were then unprecedented levels of postwar standards. Regional incentives can be a partial countervail to centralization, making it economic to locate some manufacturing operations further from Toronto and Montreal that the market would do unaided. Such incentives, however, are not pump-priming. They will not make viable investments that would not, at the time, be appropriate in any location. There can be, in other words, little development of its slower-growth parts when the economy as a whole is stagnant.

There are, of course, other aids to regional development besides industrial incentives. But the political will for it cannot be expected to be strong when the richer parts of the country, from which the necessary resources must mostly come, are themselves suffering unemployment. In Canada in the seventies this inevitable fading of will was accentuated by other political preoccupations. In particular, the tensions both between Ottawa and Quebec and between Ottawa and the western provinces distracted the attention that in the sixties had begun to be given to the Atlantic region.

All of this, however, does not fully explain the rapidly declining expectations of regional development. There is also an organizational factor. It must be corrected if we are to do better when economic and political circumstances are again favourable.

The initial concept of the Department of Regional Economic Expansion, embodied in the Government Organization Act of 1969, was that its efforts would be directed to "special areas" where

exceptional inadequacy of employment, in the area or in the surrounding region, called for "special measures to facilitate economic expansion and social adjustment". For this purpose, the department was to formulate area plans in cooperation with the province concerned and with the participation of people, voluntary groups and agencies in the area itself. By agreement with the province, a joint agency for the area could then be set up to carry out the plan.

Such an approach is essential to serious effort to create alternatives to movement out of a community in decline. Feasible but hitherto neglected opportunities will not be found from offices in Ottawa. They can be identified and assessed only by work on the spot, with the involvement of the community, and in active consort with local entrepreneurs and potential entrepreneurs.

This approach does not, of course, exclude the occasional possibility of capturing some larger venture that may come with outside capital, technology and management. But such exogenous forces are rare and can best be assessed and put into play in the context of an active local development organization.

It is sentimental to pretend, as is sometimes done, that a community in decline should be expected to, and can, pull itself up by its own bootstraps. It is in decline because its straps have disappeared. There has to be some help from outside, from senior governments. What is true, however, is that those resources are much more likely to be effective if their use is put into local hands. The merit of a local development agency is that it can enlist the self-help spirit of a community in trouble while providing enough new resources for the effort not to seem hopeless.

The mandate of such an agency should be broad. The priority is to find and provide backing for feasible enterprises that will create new employment. Sometimes such enterprises require improvements in infrastructures. The agency can also facilitate social adjustments. It may be the best organization to identify, in detail, training needs and potentials. It can probably make necessary mobility a good deal easier. For example, it can buy the homes of workers who are thereby enabled to move, and re-sell or rent those houses to provide improved accommodation for older people who must stay. It may sometimes be able to negotiate employment and housing elsewhere for a number of mobile families as a group, so that the adjustment is a good deal easier than for individuals alone.

And so on. The general point is obvious. The troubles of a community in decline are not abstractions. They are the problems of individuals and families that have lost the employment support of their lives. The creation of alternative support is work for which small is effective. It cannot be well done solely by bureaucracies, with however good intentions, directed from Ottawa or from provincial

capitals. It requires a locally-centred organization that can understandingly deploy the resources of government in collaboration with the community's own resources of improvisation and enterprise.

The difficulty about this is that it runs sharply counter to the traditional structures of government, federal and provincial. They are line departments, each responsible for its sector—for industry, for agriculture, for forests, for transport and all the rest—and hierarchically organised to discharge such responsibility across the country or the province. A local development organization cuts across the turf of all these departments. And turf is what bureaucracies rally to defend. In doing so they normally have the support of the Ministers who head them. Only a few politicians from the particular locality have a direct interest in the purpose of the local organization; and they may not belong to the party in office.

Nevertheless, local development organization is possible. Bureaucracies are often hard to move, but in Canada they are never immovable. They do not resist a determined political will. With so many departments involved, however, it has to be the clear, determined will of government collectively, of the Prime Minister or Premier and Cabinet, prepared if necessary to knock its own departmental Ministers into line. Only with that authority will local development organizations be able to marshal government resources to help effectively to do all that is feasible to limit the decline of communities that have lost major sources of employment.

It cannot therefore be expected that much good will be done when government sets up so-called adjustment programs under the administration of one department. They will do little to arrest decline, they will end in only helping people to move away. But that is not because it is always impossible to develop some new, soundly-based jobs in communities facing decline. It is, sometimes, because government is not determined and flexible enough to structure its organization to the task. The test of seriousness about lessening employment disparities is the willingness to establish effective local development organizations.

Immigration

Canadians are not having enough babies to replace themselves. If our fertility and the net immigration to Canada both remain around the present rates, the population will begin to decline twenty to thirty years from now. If we stopped having immigrants the effects of low fertility would be reinforced by the 50,000 or so people who move from Canada each year. Our population would decline sooner, and sharply. There are at least two reasons for trying to change this prospect.

There is, of course, no fixed relation between a country's population—its number and the rate of increase or decrease—and the country's prosperity. At one extreme, it can be said with some certainty that if a country is already very densely populated, in relation to its resources, population increase is likely to reduce the average standard of living and to increase unemployment. At the other extreme, a thinly peopled country benefits from the economies of scale if its population increases. If it is also a large country geographically, so that the overhead costs of transport and other infrastructure are high in relation to rates of utilization, it is particularly likely that more people, higher productivity and higher living standards will go together.

Since this certainty was Canada's situation for much of our history, we may too easily assume that a growing population is good for us. The point at which the relationship in fact changes must vary with technology and with factors such as trade. Moving goods is in a sense a substitute for people moving: the freer is international trade, the less is an economy restricted by the size of its domestic market. Free trade, however, does not remove transport costs and it intensifies the need for industrial flexibility in response to technological and market changes. Such adjustments are made more easily if the population and workforce are expanding rather than contracting.

"It depends. . .". On this, as on many matters, the forces at work are too complex for economic analysis to give us a more confident view than commonsense. That view seems to me to be that Canada still has a long time to continue in the stage at which a shift to a declining population would be harmful to our economy, would tend to reduce our living standards.

That view from within is certainly reinforced when we look from outside. Our sense of the world as a global village has only recently begun to dawn. Over the next few decades growing interdependence will drive a revolution in many of our attitudes. The global village which we will all recognise to be our world has teeming hundreds of millions of people in some small areas. When we have taken out of account all the land of rock and ice inhospitable to man, it is still an enormous part of the earth's usable surface that 25 million Canadians occupy. It does not seem morally acceptable that in the twenty first century, with a world population of six billion at its beginning, a declining Canadian population should be spread yet more thinly over so much space.

If that is not to happen, one or both of two changes must occur: we have more Canadian babies; we take in more immigrants.

The first seems unlikely. The baby boom ended about thirty years ago. Fertility has since been consistently declining. From 3.9 in 1961 the rate fell sharply to 2.4 in 1968; by the early seventies it was

below 2.1, the replacement rate that would result in an unchanging population in the long term; the latest rates have been below 1.7. The social changes that have produced this trend are unlikely to be soon reversed.

There are, of course, some proposals for government to adopt natalist policies, bribing parents to have more children. It seems improbable that measures as strong as would at present be required to offset the social trends would be acceptable to public opinion in general and taxpayers in particular.

In that case, we need more immigrants simply to sustain the population of Canada; for it to increase beyond the next twenty years or so—that is, as long as the numerous children of our more fertile period are still themselves having children—we will need a large increase from present immigration levels.

When Canada sought most vigorously for immigrants the dominant motive was to settle the prairies; the ideal immigrant was a European peasant with a strong back and a large growing family. The more recent expansionist phase, running for some thirty years after the Second World War, was more cautious and more erratic. The driving force was that the burgeoning of the economy, initially far exceeding expectations, created shortages of many kinds of skills. Our educational and training systems caught up only with varying time-lags. We therefore welcomed engineers and research scientists, doctors and nurses, professors and journalists, as well as many kinds of skilled blue-collar workers; and we were glad, also, to have people for some unskilled jobs that native-born Canadians were increasingly able to shun.

As the number of recent immigrants grew, we also accepted their relatives, with less regard to employment qualifications because sponsorship was an alternative assistance to settling in Canada. More recently, our humanitarian care and consequent slowness, in assessing claims to refugee status, have provided an opportunity for a good deal of queue-jumping by would-be immigrants.

It is much to be hoped that new procedures will correct this abuse without making us less humane to genuine refugees. It is also right, as well as politically expedient, that the claims of family reunification should continue to be respected in immigration policy. My contention, however, is that in other respects the postwar policy has run its course. This has already been reflected in the eighties; apart from the introduction of the new criterion of admission according to wealth, immigration has been much restricted.

It should not continue to be. On the contrary, it should be increased from the recent level, by steps substantially increased. But the criteria for admissions should no longer be primarily occupational—either the criteria of the sixties or the relatively recent

addition of entrepreneurship, which in practice seems chiefly to mean willingness to buy up property in Canada. The need to be met by immigration is no longer to re-balance our occupations. It is the demographic need. It is to balance our shortage of babies. The criteria for admission should be revised, to put much more emphasis on youth. Broadly speaking, the younger an immigrant, now, the better.

In any event, immigrants will not come as predominantly as in the past from the traditional European sources. Our relative attractiveness is much less than it was either early in the century or in the early postwar decades. If we were to continue to search for people in skilled occupations, we would have to go mostly to Third World countries.

That has been done to some extent. There will no doubt be exceptional future cases, particularly of people who are desperate to leave a greatly troubled country, for reasons close to those of refugees even though they do not conform precisely to the strict definition. But for us to seek any significant number of occupationally skilled people from the Third World would be appallingly bad international behaviour. We have no right to drain from poor countries the precious minority of their citizens in whose education desperately scarce resources have been invested. In the world of the present and the future, we would not get away with that even if we were so foolish as to attempt it.

But there are regrettable yet real obstacles to accepting large numbers of less qualified immigrants.

Racial prejudice, horrible though it is, may be coped with by professional immigrants with good incomes. Immigrants with less money have much more difficulty in adapting to, and being accepted by, a new country. It is not prejudice to recognise, realistically, that there are limits to the speed at which any community can adapt to a change in its racial composition, can accept people with unfamiliar lifestyles. To create tensions greater than the society can cope with is damaging to the immigrants even more than to the people they join.

Such tensions can be very largely avoided if immigration is precisely directed to the demographic need for it, if most of the non-white immigrants are young children who go to school and grow up here. The ideal immigrant to Canada today is a young orphan from the Third World.

We cannot in practice expect many such immigrants, though we should certainly welcome those who can be brought here under careful programs co-operatively arranged with their mother countries. For the most part, however, the shortage of Canadian babies can best be offset by young immigrant couples arriving with pre-school children or having children here.

In selecting such immigrants, some weight would have to continue to be given to considerations that affect the adults' chances of adapting well to Canada. But the domination of such factors as education and occupational experience, in the present selection criteria, should be shifted to the youthfulness of the family.

How many immigrants, in that case, should we look for? Of late, net immigration (the balance of arriving over departing residents) has been only around 50,000 a year. It is now being slightly increased. I would not suggest a sudden surge. We would be sensible to feel our way with a new policy. The rate of increase is bound to be influenced by economic and especially by employment conditions. It would not be rash, however, to contemplate moving within a few years to a net immigration rate of 250,000 a year. As a proportion of one percent of the population, that would be a return to about the level of immigration—of a higher average age—that we absorbed in 1967. It would be minute compared with the peak of 400,000 immigrants in 1913, when—in vastly different circumstances of course—immigration swelled the population by ten percent in a single year.

The future rate ought to be adjusted to movements in the fertility rate. The present probability, however, is that net immigration of 250,000 a year, of predominantly young people, is likely to be no more, and could be less, than is needed to give Canada in the twenty first century a slightly increasing instead of a declining population. To achieve that, at least, should be among the major objectives of public policy.

It is, however, a sensitive area of policy and two practical points are worth noting. We station immigration officers mostly in the countries from which there are, or have been, large numbers of applicants. But difficulties of absorption into Canadian life are likely to be less, and the eventual benefits to Canada greater, if the sources of immigration are diversified. The small extra cost of spreading immigration officers widely and more evenly around the world would be well worth paying.

Secondly, since it is inevitable that immigrants will come chiefly to communities where jobs are easiest to obtain, it would be fair that a federal government encouraging youthful immigration should arrange with the provinces that it contribute to the extra schooling costs of those municipalities.

11.

Strengthening Structures

The Judiciary

Until 1982 Canada had, in the words of the BNA Act, a constitution "similar in Principle to that of the United Kingdom".

That was never quite true. The main principle of the unwritten British constitution is the sovereignty of Parliament. No duly enacted statute can be challenged in the courts. It does not matter how objectionable, because discriminatory or whatever, the law may be. The will of Parliament—in practice, with very minor restraints from the Lords, the will of the House of Commons—is supreme. If the Commons have spoken, that is the law, until the Commons speaks again.

In federal Canada, of course, it was never quite so simple. The BNA Act divided sovereignty between Parliament and the provincial legislatures. The courts had a necessary role in interpreting the division.

That, however, was all. A federal statute could be challenged on the grounds that it purported to rule on matters properly in provincial jurisdiction, and vice versa. But the finding of the courts was limited to saying with which, of the two bodies, jurisdiction lay. They had no power to say that a statute was invalid for both jurisdictions. The British principle of the supremacy of elected persons remained; it was just spread between two sets of them.

Now, with the entrenchment in the Constitution of the Charter of Rights and Freedoms, there is wide scope for judicial review. The courts can invalidate a law by ruling it to be unconstitutional in the deeper sense of being beyond the jurisdiction of both federal Parliament and provincial legislatures.

This is a major change in our political culture. Its significance does not require emphasis if one remembers the role of the U.S. Supreme Court in cramping the New Deal of the 1930s or, more recently, the contributions of a liberally-minded court to lessening racial and other discriminations. Indeed, we had reason enough to be warned by our own experience. Judicial interpretation of the division of powers in the BNA Act profoundly shifted the balance, making the federal authority weaker, and provincial authority stronger, than the Fathers of Confederation had plainly intended.

The new Constitution incorporates, of course, an element of Canadian compromise. The "notwithstanding" provision gives legislators a limited power to override the courts. But, as early cases have already shown, the exercise of this power is likely to be controversial. Except in a few special areas, it does not seem likely to be widely used. In other words, we have to assume that judicial review will continue, as it has begun, to have significant impact on our public policies.

Whether that will turn out for good or for ill is not the topic of this chapter. Another characteristic of the Canadian Constitution is that it is difficult to amend. Whatever doubts some of us may have, judicial review is a fact with which we must expect to live for some time at least. My concern is that we rectify its worst feature. We have bestowed this large additional power on judges, a positive power to shape the lives of Canadians, without making any provision for due process in appointments to the bench. There is no equivalent to the role of the Public Service Commission in securing objectivity in the selection of the bureaucracy. Judges are patronage appointments, in the unfettered discretion of the politicians in office when vacancies occur—federal politicians for the higher courts, provincial politicians for the rest.

It should in fairness be said that the patronage is usually exercised with discretion. Really bad appointments, of incompetent or untrustworthy judges, are rare, particularly at the federal level. But they occur. And as the powers of judges increase, the temptations to patronage are strengthened and the consequences of incapacity, prejudice or political bias become more serious. In nothing more than in the appointment of those who administer justice is it important that justice both be done and be seen to be done. We need a procedure for that purpose.

The American system of checks and balances is of some help in this respect. The President only nominates Supreme Court justices; the Senate rejects or confirms t' -m. We cannot copy that model unless we have an elected Senate, and in any event it is not ideal. It should not be difficult to devise a better procedure, a method of appointing judges both more open and more refined than now.

Openness requires that there be some hearing before a judicial committee of Parliament. Refinement requires a way of ensuring that the committee's questions and discussion are strictly concentrated on the nominee's qualifications and are not exercises in the partisan proceedings of Parliament.

For this purpose, the bar associations might be called to aid. There is at present an informal arrangement whereby they offer confidential suggestions of eligible candidates for judicial appointments. It seems to me that this might usefully be supplemented by public questions when the government has made its nomination. The associations—the Canadian bar association in the case of appointments to the Supreme Court and the federal court, the relevant provincial association for federal appointments to the higher courts in the provinces—could be required to name a representative to appear before the parliamentary committee to answer questions about a proposed appointment. The answers would no doubt be exercises in diplomatic evasiveness, but it is not difficult to conduct such hearings in ways that make it possible to read between the lines; it is not in the interest of the bar association to appear to be enthusiastic about bad appointments to the bench.

Obviously, the value of such hearings would not lie in a committee vote at the end. It would be that the necessity for the nominee to the bench and the representative of the bar to appear for public questioning would be a powerful discipline against the government making bad nominations. It may well be that the detail of the suggestion can be improved upon. The important point is that the role our Constitution now gives to judges makes it necessary that there be some process for securing as much assurance as possible that the appointments are made with due care and without political bias.

Constitutional referenda

At the time of writing it is uncertain whether the latest constitutional changes, drafted as the Meech Lake Accord, will be implemented. Any elaborate discussion of the Constitution would therefore be inopportune, as well as an unbalancing of the content of this book. And little useful purpose would be served by brief discussion of matters that have been debated so much and so lately.

I therefore limit myself to a simplistic statement of opinion on the most important of the issues. There seems to me no doubt that, if the Meech Lake Accord is implemented, the federal government will in future have more difficulty in exercising effective leadership when new directions in nation-wide policies are called for. Several features of the Accord contribute to this, but the worst is the appalling vagueness of the wording about a provincial program "or initiative that is compatible with national objectives". What, in this context, is an initiative? It could be a tiny project, provided only that the province says that it may lead to bigger things. What is the precise meaning of "compatible with"? If does not necessarily mean more than "not in conflict with". And how general may be the national objectives that are not contradicted?

A constitution cannot be so precisely worded as to be like a straitjacket. But it loses all point when it is so vaguely worded as to mean, in this case, that a province that chooses not to take part in a national shared program can get the same amount of federal money to do almost anything it chooses. The effect then is to create heavy odds against the federal government thinking it politically wise to take the kind of lead that is sometimes needed nationally though the jurisdiction is provincial.

The flaws of Meech Lake very clearly stem from the present Prime Minister's desperate political wish to get the agreement with Quebec in which his predecessor had failed. It is difficult to believe that a less urgently driven and more skilled negotiation could not have achieved agreement to a more balanced constitutional amendment.

However, this comment having been made, it must be added that whether or not we have to live with an unamended Meech Lake Accord is to my mind less important than our capacity to improve the ways in which Ottawa and the provinces work together. Some suggestions of that kind will be made in the next section.

There is, however, a constitutional point on which something different needs to be said. It stems not from the Meech Lake proposals but from the Meech Lake process. It is that amendment of the Constitution should require a nation-wide referendum.

A unitary state has no need of the referendum device. Politicians are elected to run the country. They retain power or lose power according to the people's judgement of their performance as a whole. To refer particular issues to specific popular decision is a clumsy abnegation of the responsibility of the politicians in representative democracy.

Federalism does not change this, for matters that are clearly within jurisdiction either of the Parliament or of the provincial legislatures. But Canada has evolved a form of federalism in which many issues are determined, wherever the jurisdiction may be, not by

one government or another but by negotiation among them. This has become the only way to make federalism work, in our situation in our time.

Its necessity, however, should not blind us to its implications. It makes government more remote from citizens and their ballot boxes. Is a federal-provincial deal part of the record by which provincial electorates judge their governments? Is it really the feather in its cap that a federal government will claim? More importantly, which politicians suffer if there is no deal? It is unlikely to be of much account in a provincial electorate's judgement of its one of the eleven negotiating governments. The federal government runs much more risk that a failed negotiation will work to its electoral discredit.

This lack of political symmetry is profoundly important when we consider, as will be done in the next section, how the federal-provincial relationship could be better conducted. Here, however, the point is that whatever the detail of the confusion, it is inevitable that federalism in some respects confuses the political responsibility, the holding-to-account, that is the central principle of representative government. The effects of confusion are most serious in the matter that is most fundamental: the Constitution, our basic law under which all the lesser laws and actions of government are shaped.

The Constitution we have, formalised in 1982, was created in the fervid, late-night negotiations of eleven men in November 1981. The Meech Lake proposals for its amendment came in the same way. The difference was that, since the federal government was more compliant, there was not even one dissenter among the provinces. Also, the preliminaries having been shorter, the fervid stage had two phases, at Meech Lake and in the Langevin Block, and the end was even more agreement by exhaustion.

The crudity of the process was no bar to the presentation of the product as sacrosanct. The product was a highly complex set of changes in the nation's fundamental law. Many people sympathetic to the thrust of the changes questioned their often uncertain detail. But no words once agreed by the eleven in the early hours of one morning could be changed. Parliament and the ten provincial legislatures could not be denied the right to debate, but they could not amend; with the prestige of the leaders of their majorities at stake, they could only talk for a while before rubber-stamping. The one reason why there is now doubt about the outcome is that two provinces happened to have provincial upheavals by elections and moved to new premiers who had not been among the Meech Lake eleven.

One does not have to be critical of the Accord to say that the process that produced it is not good enough. "For", in the eloquent words of Thomas Berger:

> a Constitution does not merely provide the means of settling present disputes, it is a legal garment that reveals the values we hold. It is a document expressing that decent respect which the present owes the past; it is, at the same time, a document addressed to future generations.

The amending of the Constitution surely requires a process more open and more careful, a process that confers more legitimacy, than the deal-making of eleven people with many other interests to trade, only one of them elected on national issues, the others elected to run provinces and quite properly motivated chiefly by desire to keep their provincial parties in power. If any of the ten is a national statesman it is an accident, not a part of the job description.

The greatly better way to amend the Constitution is by referendum. That would not be, of course, by any means unique to Canada.

The main point is democratic legitimacy, but I suggest that amendment by referendum is also the route by which to lessen the great danger we have faced since the amendment procedure was formalized with the patriation of 1982. The deal then gave us a highly rigid constitution; the Meech Lake proposal would make it more so, by increasing the number of matters on which amendment requires provincial unanimity. The danger, of course, is that there will be no agreement to adapt such a constitution to changing circumstances.

There has to be some provision for unanimity. On the reason for this we should, as Gordon Robertson said some years ago, stop pussy-footing. Quebec must have a constitutional guarantee against amendments by the English-speaking majority that would lessen the status of its language and culture; it must have the right to opt out, without financial loss, from nation-wide programs involving present provincial jurisdiction if it considers that the programs do not fit with values different from those of English-speaking Canada. Whether it is appropriate to describe Quebec as a distinct society may be argued, but certainly it is a province different in some respects from the other provinces.

Provided that this is clearly recognised, the instrument of the referendum could well be the means to give us the somewhat less rigid constitution with which we could more confidently expect to cope with an uncertain future. If a majority in a national referendum is required, the rest of the amending formula could surely be simplified to require the votes of Parliament and of the legislature of six provinces, together having more than 50 percent of the population.

Amendments involving language and culture, and therefore requiring unanimity, would, of course, be excluded from this formula. However, protection against unwanted transfers of jurisdiction and

unhedged use of the federal spending power could be secured by a parallel version of the formula. The same referendum-Parliament-six provinces requirement would apply, but with provision for excluding from the transfer or program, and providing with full financial compensation instead, any province in which there was approval neither of the legislature nor of a majority of that province's voters in the referendum. This would fully protect Quebec's position, as long as its voters so wished.

Most importantly, such a formula would lessen the tensions and contortions of federal-provincial bargaining by shifting some decision-making from the deal-makers to the voters. It would thereby hedge the federal spending power in a way free from the uncertainties of judicial interpretation inherent in the Meech Lake Accord, and also much more likely to be compatible with program innovations.

It seems possible that the use of the referendum might in time be extended to other improvements in federal-provincial policy making, but I am not proposing that we try to run before we walk well.

Consensual federalism

Federalism as it was created, chiefly late in the eighteenth and the nineteenth centuries, as it was theorised about as recently as the inter-war period of the twentieth century, is dead. While the role of the state in society was small, it was convenient and practicable for diverse societies to divide the role between two jurisdictions. A separation of "national" and "local" affairs was simple. Each layer of government could discharge its function without impinging much on the other.

For the activist state that had been developing before the second world war, and then became established beyond reversal, such live-and-let-live federalism is impossible. Whatever the theoretical division of powers between federal and provincial governments, there can be no clear separation in practice. The wide-ranging activities of government are too interdependent. Unless the powers of the provinces are indeed merely local, policies of national importance cannot be hived off as exclusively federal. In many matters, and especially those affecting the economy, the effective policies of Canada are bound to be those that emerge from the activities of the provinces as well as the federal government.

Therefore, though they are often talked about in such terms, federal-provincial relations are not primarily a matter of ensuring that Ottawa and the provinces are unimpeded in the exercise of their own jurisdictions. Respect for jurisdictions there must be, but essentially that is the base for consultation and cooperation in ensuring that what federal and provincial governments do in their respective spheres will

meld in a mutually supportive way with policies that operate beneficially for the country as a whole.

It was twenty years after the war before the necessity of this cooperative federalism was accepted in an Ottawa long accustomed to the centralization that had originated in the war. In the ensuing twenty five years the pendulum has swung too far the other way, to decentralization: not in the sense that the provinces have regained too much power, but in the sense that we have not developed the instruments with which Ottawa may exercise sufficient leadership, as only it can, in the development of consensual policies.

The reason for this is not that Canadians have not wanted the leadership. It is not the intent of federal politicians, except perhaps a few who see nothing beyond today. The main reason is the asymmetry in the federal-provincial relationship referred to in the preceding section. The federal government gets much of the credit for agreements, almost all the blame for disagreements. On most matters most of the provinces have little to lose, politically, from disagreements. Generally, some or most of them do not have a great deal to gain from agreement. Their negotiating strength is greater than the federal government's precisely because they have less at stake. The effect of the confusion of responsibility in the federal-provincial system is that the federal government has too little capacity to lead it to coherent national policies.

Some of the consequences are the rigidity of the constitutional amendment formula, the weakness of the fiscal arrangements for post-secondary education and health care, the confusion of dealings with the original peoples, the fudged status of the territorial governments, the imprecision of the spending power provisions of the Meech Lake Accord. More significant, however, than these happenings are the initiatives that have not been pressed or not been taken at all.

The most obvious is the federal interest in an elected Senate. As was argued in chapter four, and as many other people have argued, the federal role in national life is hobbled if there are no legitimate regional voices within the federal structure itself. One of the main ways to enhance the power of federal leadership of the federation is to create an elected Senate, if possible in the form suggested in the earlier chapter. Provincial agreement, as was recognised, will not be easy to obtain. For that reason, the federal government should long ago have been nurturing public opinion. Opinion has now in some degree nurtured itself. The time is right for the beginning of a serious political effort in Ottawa.

One of the important advantages would be to defuse federal-provincial conferences. Provincial Premiers could no longer claim to do battle in Ottawa as the regions' only spokespeople on national affairs. The asymmetry of negotiating power would be reduced.

Even before the Senate is elected, some good could be done by federal insistence that the appearance of negotiation be put where everyone knows that the reality must be—behind closed doors. The Premiers cannot now be denied their collective television show, but it surely could always be limited to one session, when positions are stated once, and briefly, before the real meeting begins.

Negotiations among First Ministers obviously must remain central to the federal-provincial relationship, and they will not be free from posturing. The practical objective is to lower the temperature in which the posturing takes place.

The best way to do so is to build up a body of advising and support organizations that are genuinely joint in their objectives and staffing. We have masses of councils and committees, some of federal and provincial Ministers, most of officials. They sometimes achieve useful coordination of programs, but they are essentially delegates of their governments meeting to negotiate. We compare badly with other federations, such as Australia and even the United States, in structures that are joint instruments of the central government and the units of the federation.

I have described elsewhere* the high hopes that in the mid-sixties some of us placed in the Economic Council of Canada, and the reasons why they were disappointed. The Council was intended to develop and articulate widely representative views, as much a consensus as possible, about the long-term direction and methods of economic and social policies. The mandate was broad, but it has not been fulfilled. The Council has functioned as no more than a research organization of small importance. It should be abandoned. What it now costs should become part of the funding of a new Council of Canada established jointly by the federal and provincial governments.

The Council would be, in effect, a continuing Royal Commission on the prospects and policy needs of the country. It would be charged to consult widely and to publish views on issues and long-term policies, particularly in all the respects in which federal and provincial activities impinge on each other.

It would be essential that the Council not be constituted by separate appointments from the various governments. All members should be appointed by agreement of Ottawa and the provinces collectively. The Council must, of course, be broadly representative of regions and of typical backgrounds and interests, but those considerations should be secondary to their all being persons of

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* *A Public Purpose*, pp. 346-9.

distinction. They would need that in order to be secure against end-runs by bureaucrats as well as neglect by politicians. A membership of fifteen or more would be required in order to secure sufficiently broad representation. Some might effectively be full-time, but most part-time. The appointments should all be for fixed terms of several years, scheduled so that the number of retirements at any one time is too few to destroy continuity.

The Council would have to be assured of adequate funding through contributions, committed for ten years or so ahead, from all eleven governments; the shares might most fairly be related to the revenues of each government.

A staff of some size would be required for the Council. Indeed, while a strong Council would by the articulation of its views have a leading influence on the development of a more consensual federalism, perhaps its most important function would be to provide the reporting point for a genuinely Canadian public service, neither federal nor provincial. The Council staff, headed by the equivalent of a very senior Deputy Minister, would be what does not now exist: the basic secretariat for all federal-provincial councils and committees. Federal and provincial officials would be called on to provide detailed expertise, but the core staff would be objective in the sense of owing loyalty to neither kind of government.

The aim, of course, would be to make the mechanisms of federal-provincial cooperation continuing and more effective. There are many simple improvements with which to start. An example is the timing of budgets. The main expression of any government's policies as a whole is its annual budget. Desirable though it would be, we cannot expect the eleven governments soon to have the mutual confidence for prior collective consultation, but mutual interests could first be recognised by an agreement on scheduling. Ottawa might undertake to have its budget day at, say, the beginning of February and the provinces all to produce theirs during March. They would then have time to assess the significance for them of the federal budget before making their own plans final, and Ottawa in turn would know, before the beginning of the financial year in April, to what extent its own expectations and policies might require adjustment in light of the provincial budgets as a whole.

It is genuinely difficult, however, for Ministers and their officials, federal or provincial, to get started on such changes of habit. Each Ministry and Department of Finance has problems enough to worry about. They may think of the exact timing of the budget as a point of flexibility to help them through some trouble. Once agreed scheduling had taken hold, it would be a support, not another complication, but federal and provincial people are most unlikely to get around to it. A Canadian public service under the aegis of the Council would be much

better able to propose the initiative and arrange for its implementation.

It is within frameworks such as this that we can begin to establish the habits of consultation, of taking interdependence into account instead of complaining about each other after the event, that will in time make the mingling of federal and provincial interests compatible with the evolution of more effective national policies.

A next step after the scheduling of budgets might be the coordination of borrowing activities. The borrowings of the provinces and their major agencies, such as Ontario Hydro and other power corporations, are important not only for their scale and timing, but also according to whether they are in Canada or abroad. On occasion they operate significantly counter to the monetary policy that is a federal responsibility. From the provinces' viewpoint, unexpected shifts in that policy can make the Bank of Canada seem like a *deus ex machina* turning their calculated moves of yesterday into costly misadventures today. It will probably be a while before we can handle such problems as well as the Australians seem to do, but the value of better coordination is so obvious that it surely must develop once an environment for it has been created.

These are only examples of the many respects in which public policy would benefit from a developing concept of joint federal-provincial responsibility. Except sometimes in narrow terms of political partisanship, and decreasingly even in those, there are few zero-sum games in which conflicting federal and provincial interests are traded off. There is much more to be gained by constructive coordination. But for that to be palpable, for habits of separation and habits of conflict to be more quickly dissolved, we need an innovation that clearly embodies the consensual requirement in federalism. To establish a joint public service under the aegis of a joint advisory council seems to me the appropriate innovation for which the time is now ripe.

The subject of federal-provincial relations cannot be left without mention of another major area in which the need for new ideas and new approaches is patent. Constitutionally, municipalities are the creatures of the provinces. Occasional appearances of a federal inclination to treat them otherwise, responding in part to their wish to be otherwise, have always been sharply stamped on by the provinces and no doubt will be again. Nevertheless, Canada cannot be governed sensibly if we go on indefinitely pretending not to recognise that some municipalities are now a bigger factor in government that some provinces.

The traditional base of municipal funding, the property tax, is inadequate. Its supplementation by the provinces has inevitably led to some diminution of municipal authority. This is perverse: big

government requires more decentralization, administration closer to, not further from, the point of service.

Furthermore, the scale of provincial assistance does not save most municipalities from being the part of government that is, in relation to its responsibilities, most poorly funded. The federal government would be neglecting its responsibilities if it were indifferent to tendencies towards either urban strangulation or rural dissolution. The challenges of municipal funding and organization cannot long be left off the agenda of a more consensual federalism.

Cabinet

The early chapters of this book were about politicians; their prime role in public policy will be recognised by ending with them too.

I believe that, if the earlier suggestions were implemented, the leading members of an electorally victorious party would come to office better prepared. They would have more precise ideas of what their government will do. They would be in less danger of being overwhelmed by their jobs or by their officials. They would be able to draw on the support of a better informed caucus, more able to make the government's case in Parliament and the country. They may be overwhelmed all the same, unless the machinery they have to work with is improved.

Much has been written in recent years, and some actions have been taken, along two main lines of reform. One is to make Parliament more effective, with attention particularly concentrated on enhancing the role of the backbench members' contribution to policy-making through committees. That is certainly not to be disparaged, but I would comment that some of the reformers seem in their enthusiasm to overlook the central purpose of Parliament. It is the focal point for the discussion of public affairs that, in an active democracy, takes place through the country. Parliament is simply the first place where government policies are expounded and probed, criticised and defended, in terms that inform the wider debate. The main test of the value of parliamentary reforms is the degree to which they improve its performance in this primary function. The improvement of committees is, in itself, secondary.

The second thrust of reform has been directed to the machinery of executive government: to specifically public sector issues such as the accountability of public servants and their roles relative to Ministers and political appointees; and to all the complex facets of management. I shall leave all this aside, partly out of doubt that I have anything of value to add, but mostly because it does not go to the heart of the problem.

As the reader was reminded in the first chapter, the Cabinet system that ours is supposed to be concentrates responsibility for government in a group of leading members of the party able to win confidence votes in the House of Commons. Individually, they are responsible for the departments of government, but they support each other in a collective responsibility. Major decisions are therefore made by the group and all its members are then committed to them.

It is an admirable system, but it requires that the Cabinet be of the size—a dozen or so—that can operate effectively as a decision-making body. The first Canadian Ministry, on July 1, 1867, was in fact twelve strong. By the time Mr. St. Laurent formed his first Cabinet, some forty years ago, the size was nineteen. The inflationary rot has since accelerated. There are, at the time of writing, thirty-nine Ministers.

In the sixties and seventies inflation (and therefore depreciation) of the Ministerial currency was accommodated, after a fashion, by the development of the Cabinet committee system and by the enhanced role of central agencies—the Privy Council Office, Treasury Board, the Prime Minister's Office—in the government structure. Committees and central agencies together have taken on some of the work of coordination that in simpler times could be left to the Ministers and their Deputies. That was necessary, but it has involved two significant costs. Central agencies do not only coordinate, they centralize. Their officials, as well as the political staffs of their Ministers, intrude into matters about which they know far less than the officials of the line department responsible. The consequence is, at least, much wasted time and paper. Sometimes the consequence is a serious error. Very often it is that the sensible decisions emerge too late. Government takes on an increasingly clumsy slowness.

It can be argued, nevertheless, that for a time the adjustments of the sixties and seventies kept as much sense in the system as possible. It was a crush, but all the Ministers did get into Cabinet meetings once a week or sometimes oftener. Principal decisions were still made, or at lease registered, as the collective action of all those who have responsibility to Parliament for the departments of government.

No longer. The number of Ministers has continued to grow. Cabinet is now no more that a glorified caucus, meeting only occasionally. Any pretence that it is the decision-making body has had to be dropped.

Does it matter? It does not bother the management experts in whose scheme of things the Cabinet is a vague equivalent of a corporation's board of directors meeting occasionally to endorse, generally, the work of the chief executive officer and his management committee. The analogy is, of course, quite false. Ministers are not part-time board members. Each is a chief executive officer, for a

ministry or perhaps nowadays part of a ministry. If they do not sit together to make major decisions their collective responsibility for government as a whole is a myth.

It can be argued that the pretence does no harm because everyone knows that most Ministers now are not really Cabinet Ministers. They are not part of the group that have their say in the Cabinet room and stick together outside it. They are given the status in exchange for sticking together without having had their say. But need anyone but a purist worry about that? There is, it is argued, a real Cabinet inside the facade. There are senior Ministers who meet in one or two committees and make the big decisions there. This so-called "inner Cabinet" does the job.

The trouble is that an inner Cabinet is not a Cabinet. The Ministers who sit around the committee table may hold many of the most important portfolios, but they do not combine responsibility for anything near the whole apparatus of government. As a group, they are not in a position to take the overview that is the essence of the collective making of major decisions. Since many departments are unrepresented round the committee table, both the channels of information to it and the lines of responsibility from it are uncertain and confused.

The sickness of the Ottawa body politic is that the heart itself is enfeebled by congestion. A senior committee might be compared to the insertion of a mechanical pump to improve the flow of blood to the legs. Its inevitable inadequacy calls for more pumps to more parts. For a time it was clear that Planning and Priorities was *the* committee. Then there was also the Operations Committee. Now there is Expenditure Review. Which, if any is the *top* committee is uncertain, but it is clear that none improves the flow of blood to the brain. For that, nothing less than a sound heart will do.

Ministers and officials, their consultants and task forces, may go on earnestly tinkering with the mechanism of government—for thirty years this has been a major industry in Ottawa—but they will not cure the confusion that a large Cabinet creates at the heart of government. The need is surgery. It is, indeed, a heart transplant, a fresh beginning.

An effective Cabinet would consist only of the Prime Minister and perhaps ten, at most twelve, Ministers. For clarity I suggest that these Ministers should all be rechristened Secretaries of State, for the major functions of government. Between them, those functions would embrace all departments and agencies. The Secretaries of State would therefore have varying numbers of junior Ministers, responsible to them for policy direction. The Ministers would be clearly identified as departmental, not as members of the Cabinet. They would answer to

Parliament for departmental matters, but not for broader policies determined by Cabinet.

The Secretaries of State would have relatively small staffs, with time only for major matters; detail would be left to the departments where it belongs. The staff of the Prime Minister's Office could be substantially and beneficially reduced, because his span of control would be the ten or so Secretaries of State, not directly the Ministers. Cabinet government would be restored. That is to say, the central responsibility for government would lie with a group of politicians small enough to be an effective decision-making body, sufficiently freed from detailed departmental administration to have the time and resources to make thoughtful decisions, but between them having the lines of authority to make their decisions effective through the processes of government.

It is, of course, impossible to be sure how such a re-structuring of Ottawa would work out in practice. So much would depend on the Prime Minister and Ministers at the time. There is a history of lesser reorganizations that often disappointed expectations. But we cannot give up trying to relieve the central processes of government from progressive deterioration through congestion. The fundamental point remains that the Cabinet system is a better way of conducting democratic government than a Presidential system. We get the worst of both worlds from the pseudo-Presidential system that results from surrounding the Prime Minister with forty or so Ministers who are not a Cabinet. Sooner or later we will have to do something better.

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